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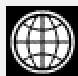

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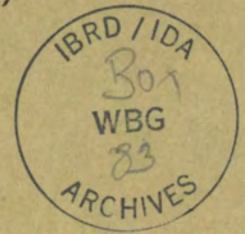

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Document Type	Date	Correspondents or Title	Restriction #
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Subject: Security classification of "Proceedings at the Seminar" is "confidential" and disclosure of this document is governed by the principles of the IFC Disclosure Policy.			
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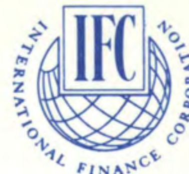

Speech by

William S. Gaud

Executive Vice President

International Finance Corporation

Tehran, Iran

February 1972

It is always a pleasure to return to Iran. This is so for many reasons, but let me single out just one: to see for one's self the impressive progress that Iran continues to make toward its development goals.

When I first visited Iran in 1944 I was not much concerned with economic development. Today, things are very different. Development is, and has been for many years, your main concern. And, I am happy to say, since 1961 I have had the good fortune to be a close and interested observer of Iran's development.

Amazing changes have taken place since I first revisted Iran early in 1962. As a result of His Imperial Majesty's action program, much has been done to modernize and revolutionize Iran's social and economic structure. You know the facts well: the White Revolution, the rapid growth of the industrial sector, the war on illiteracy and ignorance, the increase in the ratio of savings and investment to gross national product -- Iran has accomplished a great deal and has many things to be proud of.

Yet there is still plenty of work ahead. For development is a job that never ends -- in Iran, in the United States or anywhere else in the world.

When it comes to development, Iran is fortunate in many ways. To begin with, it is blessed with extensive natural resources: oil first and foremost, but also much mineral wealth and great agricultural possibilities. But natural resources alone are not enough. They need people to exploit them -- people with a capacity to learn, a will to work and a drive to improve themselves.

The Iranians are such a people. But the combination of resources and people is still not enough. There is a third ingredient that is essential for development.

This third ingredient goes by various names. I call it a favorable development climate. It is a combination of wise and enlightened leadership, a true sense of national priorities, a determination that the many rather than the few shall benefit from the country's development and, by no means least, political stability.

Thanks to His Imperial Majesty, Iran has possessed this favorable development climate for many years. Without it, development would be extremely difficult, if not impossible.

I am glad to say that the World Bank has played an important part in enabling your country to make the most of its developmental possibilities. Since 1956 the Bank has made 20 loans to Iran for a total of $719 million. Of these 20 loans three, for $58 million, have been for agriculture and water supplies; two, for $102 million, for power and irrigation; and four, for $173 million, for roads. The largest number of loans, seven, for a total of $205 million, have been for industrial projects -- the most recent, for $50 million, only the other day. These seven loans all went to the Industrial and Mining Development Bank of Iran and all were to support the development of private industry.

Private industry. There are some who think that development and private enterprise don't mix. I don't agree. Risk capital -- that is, private capital -- has historically been the major financial base for economic growth. It still is.

Private enterprise is important to the developing countries for several reasons. For one thing, the challenge posed by development is so vast that there are not enough public and international aid funds to meet it. That means that every available dollar, pound, franc, mark and rial has to be harnessed to the development effort. Thus private enterprise is important because of its money contribution to development. But, equally important, it also contributes technology and efficient management, both of which are in short supply in the developing countries.

The International Finance Corporation (IFC) was set up in 1956 specifically to promote the growth of productive private enterprise in the developing countries. The World Bank had already done much, as here in Iran, to help the less developed countries build the foundations to support industrial growth. But the Bank itself is not suited to give direct support to private enterprise. It is a lending institution, not an investment institution. It cannot supply risk capital or invest in equities. It lends only to governments or on a government guarantee.

After 10 years the member countries of the World Bank realized that effective support for private enterprise required the creation of a special institution, and so IFC was born.

Let me now say something about what IFC is and what it does.

First, then, what is IFC? A basic point is that IFC is quite different from a multinational corporation. It is, owned by the 96 member countries which are its shareholders, Iran among them. This means that these countries are, as it were, part owners of every investment made by IFC. Seventy-three of our 96 member states are less developed countries -- evidence that they feel private enterprise has a place in their future.

What resources does IFC have to accomplish its objectives? Our 96 member countries have subscribed and paid in our capital of $107 million. We have accumulated earnings of $65 million. We can also borrow from the World Bank up to four times the amount of our unimpaired capital and surplus -- in other words, we can borrow $428 million. So, in all, our resources amount to $600 million.

How do we use these resources? In various ways, and with considerable flexibility. IFC investments usually range between $1 million and $20 million. They are always tailored to the case in had. Most consist of a share subscription plus a long-term loan. Sometimes when a loan is not needed we subscribe for shares only. Another form of investment is a long-term loan with an equity feature. Less often, when equity but not loan funds are available from elsewhere, we will make a straight loan.

IFC loans normally run for a period of seven to twelve years, with amortization payable semi-annually after the expiration of a grace period to cover the construction of a project. Interest rates depend upon the conditions of each transaction and the state of the world's long-term money markets.

How have we put our money to work? We have, in all, invested $617.9 million in 176 businesses in 47 developing countries. Through and with us others have invested $2,767 million in these enterprises, making a total of $3,385 million.

Our money has gone primarily into manufacturing -- but also into tourism, utilities, mining, food processing, petrochemicals and agribusiness.

Here in Iran we have so far made three investments. I am here to sign the investment agreement for a fourth, and a fifth has been approved by IFC's Directors.

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Last year, 1971, IFC made a $4.5 million loan to support a $17 million project. This was the expansion of Sherkate Sahami Aliaf's plant to double nylor yarn production to 6,000 tons a year.

Now I am about to sign the agreement by which IFC is making its largest investment in Iran so far. With $14.2 million in loan and equity we are joining Iranian investors in financing a $62 million expansion of Pars Paper Company's mill -- which, I believe, is Iran's first integrated pulp and paper mill.

This means that IFC has now invested $22.9 million in your country. With the fifth proposed investment that has already been approved by our Directors - but not yet publicly announced - our total investment in Iran will amount to just over $26 million in five projects with a total cost of $108 million.

How do we become involved in our investments? In various ways. In some cases, IFC is asked to put up the "last money" for a project by filling a gap after most of the financing has already been arranged. Or an industrialist may have a project in a less developed country and ask us to assess it and, if we approve it, to put a financial package together. In such cases, by making a commitment at an early stage, IFC may make it possible to bring in other investors to complete the financing.

Sometimes, as in the case of three recent projects in Indonesia, we may ourselves identify a promising project and seek the help of others in developing it. Or we may help in promoting a pilot company to make feasibility

studies and experiments. At the moment we are doing this with a vegetable-growing project in West Africa, and in Mexico with a project designed to produce newsprint from bagasse.

How does a project qualify for consideration by IFC? It must meet two basic conditions. It must be of economic benefit to the country concerned, and it must be potentially profitable.

Profitability is essential for two reasons. One is that without profitability we cannot attract the business and financial partners who, as I have said, have invested $2,767 million in projects we have supported in developing countries. The other reason is that without profitability IFC could not turn over its capital by selling parts, or the whole, of its investments, thereby releasing its funds for new ventures. To date we have sold $166.7 million of our investments to other investors, local and foreign.

A moment's reflection will show that there need be no conflict between the objectives of economic benefit and profitability. Indeed, they are inter-dependent. Any number of private business enterprises in the developing countries contribute to rising incomes, or to a greater export capability, or to greater industrial efficiency, or to the effective use of local resources, or to the transfer of needed technology, or to the training of a needed labor force or to some other developmental objective. Those enterprises could do none of these things if they did not make a profit. They could not even survive.

We take great care to ensure that each of our investments should fulfill the two conditions I have mentioned. Over the years our international staff has built up a considerable body of expert knowledge -- financial, legal and technical -- which we apply in an on-the-spot appraisal of every potential investment. In this way we try to ensure that the project is sensibly

structured and its concept and sponsorship sound; that management is capable and experienced; that the plan for financing the venture is realistic; that a market exists for the company's products or services, and that it will benefit the economy of the country in which it is located.

However IFC becomes involved in a project, we never invest alone. We always have partners. Our commitment to any project is normally well under 50 per cent of the project cost, and we provide less than 25 per cent of any share capital. We do not participate in management, nor are we represented on the boards of the enterprises in which we invest. But we do maintain a continuing interest in those enterprises, through our Portfolio Supervision Unit and by field visits and periodic consultation with management.

There are two other points I should mention. First, we don't compete with existing capital resources -- it is our job to mobilize and supplement private capital, not to replace it. Second, we will invest only in projects which are not objected to by the government of the country concerned.

I said a moment ago that IFC always has partners in its investments. Let me expand that statement by adding that it is also our policy to encourage local ownership of the ventures in which we participate. We will not support an enterprise that is 100 per cent foreign-owned. We will, on the other hand, support one that is 100 per cent locally-owned. In no case will we invest in an enterprise unless there is some local ownership.

Half the enterprises in which we have so far invested have been joint ventures supported by local and foreign capital. In a joint venture the skills and resources of the partners complement each other. The local partner provides not only capital, but knowledge of local market conditions; he can handle relations with labor and Government and help arrange local currency financing. The foreign partner, besides capital, contributes industrial techniques and managerial experience.

Many people have the impression that even in joint ventures the bulk of the funds invested come from foreign sources. The record does not support that impression.

Over the whole range of IFC's investments local capital has made a greater contribution than has foreign capital. Of every dollar invested in projects directly financed by IFC over its 15 years' of life, 19 cents were contributed by the Corporation, 36 cents by foreign private investors and 45 cents -- nearly half -- by local interests.

Besides direct investment IFC has done a number of other things to help channel domestic savings into productive private enterprise. Let me mention a few.

Sometimes local investors are willing to subscribe to shares in a local enterprise, but are only able to pay for them over a lengthy period. In such cases we have given local standby and underwriting commitments to enable financing of an enterprise to go forward without delay. Since 1962 we have committed $52.8 million in these ways.

In those countries with fairly well developed capital markets, IFC has sometimes required, as a condition of financing a project, that its sponsors offer shares to local investors if there is no existing domestic public participation. Sometimes, too, we have earmarked part of our own holding of shares for future sale to local investors, particularly where lack of a capital market has made public participation in the early stages of an enterprise difficult or impossible.

IFC is also active in helping developing countries to establish or strengthen institutions to mobilize local capital for investment. We provide that help mainly in two ways.

First, governments and private groups in the developing countries can, at their request, be helped to establish and support institutions to channel domestic savings into productive private enterprise.

Second, in countries where securities are already traded locally, IFC can advise on ways to encourage wider share ownership and to increase the choice of stock holdings available to local investors.

It so happens that just at this moment we are offering some help in this sphere here in Iran.

You will know that your Government Ministry of Finance, Bank Markazi Iran and the Industrial and Mining Development Bank of Iran have been encouraging the mobilization of private savings through the commercial banks, and through the creation of a securities market in the shape of the Tehran Stock Exchange.

We in IFC have followed these developments with interest. Now, at the request of Dr. Jamshid Amouzegar, Minister of Finance, Dr. A. A. Jahanshahi, Governor, Bank Markazi Iran,and Mr. A. Gasem Kheradjou, Managing Director, Industrial and Mining Development Bank of Iran we are working directly with the relevant authorities and institutions in preparing a program for the further development of the money and capital markets.

Given Iran's economic and social goals, our object is to propose practical ways to bring about an increase in the flow of savings into productive domestic investments. That would result in a broadening of participation by local investors in the ownership of profitable enterprises, and so reduce dependence on foreign capital.

Now an important question. Why does anyone in a developing country turn to IFC for help in studying, putting together or financing a private enterprise in such a country?

For various reasons. Here are some of them.

First, our money. Several features of IFC funds are particularly attractive to both local and foreign investors. We do not require a government guarantee. IFC can make long-term money available when it can't be found elsewhere. We can provide equity funds. Also, our money is untied. The only requirement is that it be spent in one of the 117 countries belonging to the World Bank Group or in Switzerland. It can be used to buy equipment, to cover foreign exchange or local costs, for working capital or for any other legitimate business purpose.

Next, our staff. I said earlier that our financial, legal and technical experts make a careful study of every potential investment. The Columbia Journal of World Business has called our staff "one of the most competent in the business". Among our engineers alone the average of industrial experience in developed and developing countries is 24 years. All that expertise does not cost sponsors of our projects a penny.

Another thing. The developing nations see IFC as a means of combining the benefits of foreign investment and expertise with encouragement of local ownership of local industry. They also see an IFC investment as a means of avoiding too great a dependence on any one country or any one multinational corporation. If a large international corporation is an investor in an IFC project, local investors look upon IFC as a partner who can deal with such a corporation on equal terms, whereas they themselves may not be able to do so.

That is because IFC as an international institution has certain advantages possessed by no national or purely private institution. Standing midway between the developed and the developing nations, it owes its existence and its loyalty to them both. It represents no special interests, it has no political objectives. In short, IFC fills the role of an honest broker --

doing its best to give impartial service to all who seek its help.

Here in Iran we have quickened the pace of our activities. Of the $22.9 million we have invested there so far $19 million has come in the last six months. We would like to move even faster. We are always willing to consider investing in something new. In view of the rapid growth of your industrial sector I am sure there must be many prospects in Iran. Whatever they may be our doors are always open to you, and our help is always available.

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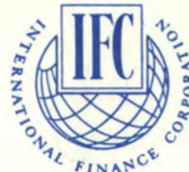

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William S. Gaud

Executive Vice President

International Finance Corporation

Tehran, Iran

9 February 1972

at a luncheon given by

Iran Management Association

at Sepah Bank Club

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for various reasons. Here are some of them.

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Next, our staff. I said earlier that our financial, legal and technical experts make a careful study of every potential investment. The Columbia Journal of World Business has called our staff "one of the most competent in the business". Among our engineers alone the average of industrial experience in developed and developing countries is 24 years. All that expertise does not cost sponsors of our projects a penny.

Another thing. The developing nations see IFC as a means of combining the benefits of foreign investment and expertise with encouragement of local ownership of local industry. They also see an IFC investment as a means of avoiding too great a dependence on any one country or any one multinational corporation. If a large international corporation is an investor in an IFC project, local investors look upon IFC as a partner who can deal with such a corporation on equal terms, whereas they themselves may not be able to do so.

That is because IFC as an international institution has certain advantages possessed by no national or purely private institution. Standing midway between the developed and the developing nations, it owes its existence and its loyalty to them both. It represents no special interests, it has no political objectives. In short, IFC fills the role of an honest broker --

doing its best to give impartial service to all who seek its help.

Here in Iran we have quickened the pace of our activities. Of the $22.9 million we have invested there so far $19 million has come in the last six months. We would like to move even faster. We are always willing to consider investing in something new. In view of the rapid growth of your industrial sector I am sure there must be many prospects in Iran. Whatever they may be our doors are always open to you, and our help is always available.

INTERNATIONAL FINANCE CORPORATION

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HOW IFC WORKS WITH BANKS

Speech by

William S. Gaud

Executive Vice President

International Finance Corporation

to

Federation of Bankers Associations

of Japan

Tokyo, Japan

March 13, 1972

It is a great pleasure to be in Tokyo again, and I am very grateful for this chance of meeting with you.

Over the years we in IFC have had the pleasure of welcoming many of you to our Annual Meetings. Either through your attendance at those meetings or in other ways I expect you have learned something about IFC. So I will not take up your time with a detailed description of what IFC is and what it does. Instead, I would like to talk about the important part banks play in IFC's activities.

Let me briefly remind you that IFC, which is a member of the World Bank Group, was set up in 1956 by Japan and a number of other countries to promote development through encouraging the growth of productive private enterprise in t he developing countries. We do this primarily by making direct loan and equity investments in specific business enterprises. To date we have invested $646 million in 180 enterprises in 48 developing countries. Some $53 million of this total amount is invested in 25 regional and local development finance companies, in a number of which we have Japanese banks as partners and co-investors.

IFC never finances anything by itself. We normally provide well under half the total cost of a project, and less than 25% of its share capital. This means that we always have other investors as our partners, and that their capital is essential to the financing of the projects in which we invest. Thus, in the 180 enterprises in which IFC itself has invested $646 million, other investors, foreign and local, have invested $3,340 million.

Sometimes these other funds have been arranged before the project is brought to us, and we are asked to put up the "last money" for it. In other cases the project comes to us before arrangements have been made to finance it, and we are asked to help put a financial package together.

In either case -- regardless of how or by whom the financing for a project is worked out -- banks are closely involved in IFC's business.

A bank may make a direct investment in one of our projects for its own account, or it may buy a share in IFC's investment in a project, or it may provide part or all of the funds invested in a project by its clients, or it may even bring the project to us. For example, two projects in which we recently invested -- one in Mexico and one in Indonesia -- were brought to us by two United States banks.

Why should a bank bring a project to IFC? There may be a number of reasons for doing so.

First, and most obviously, is the matter of money. IFC is willing to invest at long term in countries in which many others are reluctant to invest. When sufficient long-term loan funds or equity money cannot be found elsewhere, IFC may be the only available source to which a sponsor of a project in a developing nation can turn to complete its financial plan.

Second, IFC's knowledge of conditions in the developing countries is often useful in obtaining local partners, just as IFC's willingness to invest in a project often helps in obtaining other financing, both local and foreign.

Third, IFC can offer an expertise that is not readily available from other financial institutions. Over the years, IFC's international staff has built up a considerable body of expert knowledge -- financial, legal, accounting and engineering -- on how to do business in the developing countries. Investors in the capital exporting countries frequently find IFC a useful partner in a faraway country with laws, customs and a political system different from their own. All this expertise -- and through IFC the expertise of the World Bank -- is available to investors in the developing countries who choose IFC as a partner.

There is also the so-called IFC "umbrella". Foreign sponsors often feel more comfortable having a member of the World Bank Group as a co-investor in a project. They realize, for example, that IFC can work with host governments more effectively than they can themselves, and that the presence of IFC in a transaction may be useful if local conditions change for the worse.

IFC's participation in a project can also make that project more attractive to the government of a developing country. An IFC participation is one way of escaping total dependence on investors of a single foreign nationality, or on a single great multinational corporation. If local investors have as their co-investor a large international corporation they tend to welcome IFC as a partner who can deal with such a corporation on equal terms -- whereas they themselves may not be able to do so.

Now let me describe another way in which banks and IFC work together. I refer to the practice followed by many banks of buying a participation in IFC's investments.

It is IFC's policy to sell its investments whenever it can do so on satisfactory terms. We do this for several reasons -- to turn over our capital so it can be re-invested, to encourage others to invest in the developing countries, and to stimulate the growth of markets for the types of securities in which we invest.

To date, as I have mentioned, IFC has invested a total of $646 million. We have sold $174 million of those investments to others. Among the purchasers are four Japanese banks which bought a total of $3.4 million in three IFC investments -- a utilities company in the Philippines, a fertilizer plant in India and a copper mine in Chile.

IFC is prepared to sell participations in its investments either at the time it makes the investment or later. And let me be sure you understand what I mean by IFC investments. I am referring to long-term loans, or share purchases, made by IFC in business enterprises in the developing countries -- investments that we make only after a careful on-the-spot appraisal of enterprises that we believe will both be profitable and contribute to the development of the country in which they are located. IFC will provide to potential purchasers, on a confidential basis, copies of its appraisals and any other information on which it has made its own decision to invest.

A bank or other institutional investor that wants to buy part of a new IFC investment at the time the investment is made, has several choices. It may buy a <u>pro rata</u> interest in the entire investment -- the loan and the equity -- or a <u>pro rata</u> interest in the loan only, or a <u>pro rata</u> interest in the earlier maturities of the loan. If it buys equity, it pays the same price IFC pays. If it buys part of all the maturities of a loan, it receives interest at the same rate as IFC. However, if it buys only the earlier maturities, its interest rate is usually ¼ or ½ of 1% per annum less than IFC's rate.

Most of IFC's recent loans have carried an interest rate of 9½% per annum. They are usually dollar loans repayable in dollars, but we are quite prepared to make loans in other currencies -- certainly in yen, whenever a yen loan would be appropriate.

If a participant wishes us to do so -- and they frequently do -- we will see that the participant is named in the press releases and other material publicizing the transaction in which he invests. Also, of course, a commercial bank which participates in one of our investments often has an opportunity to obtain collateral business for itself in connection with the transaction.

Banks and other investors can also acquire a participation in an IFC investment by buying from IFC's portfolio -- that is, buying part of an investment not when it is first made, but later -- sometimes many years later. In this case, the sale will be made at a negotiated price agreed upon between IFC and the purchaser.

In all cases where IFC sells participations in a loan, we continue to administer the loan -- though we would of course not agree to any change in its terms without the consent of our participants. In many cases IFC can, if desired, deliver notes of the enterprise to the participant. Usually, however, IFC issues a participation certificate, the terms of which govern the relationship between IFC and the participant. All payments on the loan are made to IFC, and IFC accounts to the participant for its _pro rata_ share. These participation certificates are transferable, although we expect our participants to buy for investment rather than re-sale.

Like most lenders, IFC charges its borrowers a commitment fee upon the undisbursed portion of its loan. Our standard rate is 1% per annum. Loan participants share in this fee if their participation is taken before IFC disburses.

When IFC sells shares it does not issue participation certificates. Shares are issued by the company, or transferred by IFC, to the participant in its own name. From then on the participant, like any other shareholder, deals directly with the company.

Now for two significant points. First, in nearly all countries in which IFC has made investments, IFC has received rulings to the effect that IFC's immunities -- and they include immunity from taxation -- are not affected by reason of foreign participations. This means that no taxes are withheld by the host country in respect of the loan portions of our investments. Accordingly, IFC accounts to its participants on a gross basis and without deduction for taxes.

Second, IFC's investments are all alike in that they are not guaranteed by any government. Nor does IFC guarantee participations in its investments. IFC sells participations without recourse. It does not stand between the participant and the company in the sense of being responsible for the company's liabilities. IFC and its participants share pro rata in gains and in losses.

Finally, a word as to the amounts in which we sell participations in our investments. We normally do not sell participations in amounts less than $100,000. However, our participations are often in much larger amounts.

I believe I have said enough to indicate some of the ways in which IFC and the banks can work together to their mutual advantage. Banks in many countries have been working with IFC for a long time. In view of Japan's great and growing interest in overseas investment, I hope there will be more and more occasions in the future when Japanese banks will feel that it is to their advantage to work with IFC when they invest in the developing world.

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HOW IFC WORKS WITH BANKS

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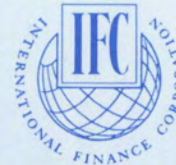

Tokyo, Japan

March 13, 1972

HOW IFC WORKS WITH BANKS

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What IFC Offers

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Two Significant Points

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IFC AND CAPITAL MARKETS

Speech by

William S. Gaud

Executive Vice President

International Finance Corporation

to

The Japan Federation of

Securities Dealers' Associations

Tokyo, Japan

March 14, 1972

I am grateful for this chance to meet and talk to you today about the International Finance Corporation, or IFC as we call it. Japan is a charter member of IFC, and I am very glad to come to Tokyo and report on what IFC is doing.

Since some of you have attended our Annual Meetings, I do not propose to take up your time with a long description of what IFC is and how it operates. I do want to say something about IFC's activities in a field of special interest to you -- namely, the growth of capital markets in the developing countries. But first let me remind you of a few basic facts about IFC -- because these form the background to what I want to say about capital markets.

IFC is a member of the World Bank Group. It was established in 1956 to promote development through encouraging the growth of private enterprise in the developing countries. We do this mainly by providing financing to new or expanding industrial ventures. We make long-term loans and equity investments from our own resources, and we also help to find foreign and local capital from other sources to complete the financing of the ventures in which we invest.

We in IFC believe that foreign private investment can do much for development. This is so not only because of the substantial sums of money involved, but also because foreign private investment brings with it modern technology and good management -- both of which the developing countries need badly.

We also believe that the developing countries will make faster progress if they encourage and support private investment by their own citizens.

Consequently, all of IFC's energies are directed to two objectives: increasing the flow of foreign private investment, and strengthening the role of local private investment.

We do this in various ways. One is by promoting and investing in joint ventures between foreign and local capital. To date IFC has invested $646 million in 180 business ventures in 48 countries. Other domestic and foreign investors have provided $3,340 million for the same enterprises. Of the 180 ventures in which IFC has so far invested, 89 have been joint ventures.

IFC will invest only in projects where there is already some local ownership, or where arrangements can be made for some local ownership. We will not invest in an enterprise that is 100% foreign owned. We will, on the other hand, invest in one that is 100% locally owned.

Another way in which IFC has encouraged the growth of private enterprise in the developing countries has been by investing in regional and local development finance companies.

We have invested $53 million in 23 local development finance companies in all parts of the developing world. Japanese banks are fellow investors in eight of those 23 companies.

We have made a $10 million loan to ADELA, which operates throughout Latin America and which has ten Japanese banks and five Japanese companies among its shareholders. We have also made a $500,000 equity investment in SIFIDA, a promotional company operating in Africa in which 12 Japanese banks hold shares.

Another important IFC activity has been helping to underwrite share issues in the developing countries. We did this for the first time in 1962 in an issue of capital shares of Fundidora, the largest private steel company in Mexico. Since then IFC has undertaken standby and underwriting commitments totaling $51 million.

Let me give you an example. A Philippine lumber company wanted to finance a paper and pulp mill by a local share issue. The transaction was too large for the underwriting to be handled locally. IFC agreed (a) to buy some shares itself, (b) to help in the underwriting of the issue, and (c) to buy more shares if the issue failed. In fact, the issue was oversubscribed. Not only did IFC's standby agreement prove to be unnecessary but, in view of the oversubscription, IFC sold to small local investors some of the shares it had agreed to buy for its own account.

We are glad to help with individual underwritings, and hope that as time goes on we will participate in more and more of them -- preferably in partnership with local underwriters and other financial institutions. But the flow of local capital will grow and spread only if there are adequate local facilities for mobilizing capital and marketing securities. In the developing countries such facilities are either lacking altogether or they are limited in scope and capability.

A year ago IFC established a Capital Markets Department. Its purpose is to support the developing countries in their efforts to increase the supply of domestic capital for private investment, ensure that capital is made available to those who need it and broaden the base of local ownership.

The kind of assistance that is needed varies from country to country. In countries where securities are already traded locally, the first priority may be to devise ways to encourage wider share ownership and increase the range of securities available to investors. In countries where local conditions do not justify the early creation of a broad capital market, the first step may be to establish financial institutions that will play a primary role in mobilizing savings. Also, of course, IFC can help find the professional personnel needed to run new institutions, and arrange for the training of local personnel.

Let me describe briefly some of the things we have been doing in this field in the last year or so.

In Korea we have supported the formation of the Korean Investment Finance Corporation (KIFC), a money market and capital market institution. Among our co-investors in KIFC is Nomura Securities Co. Ltd. This new institution, in which Koreans are the major shareholders, will serve mainly as a financial intermediary in the mobilization of short- and long-term capital for Korean industry.

Money market activities are expected to account for a very large portion of KIFC's business during its initial years of operation. KIFC will develop a variety of financial instruments and procedures to help accelerate the flow of short-term funds between individual and institutional savers and industrial companies. It will deal in unsecured corporate paper, buy and hold corporate paper until maturity and issue its own paper.

In its capital market activities, KIFC is expected to concentrate on underwritings and the development of a sales and distribution system. KIFC will also assist Korean businessmen with financial planning, portfolio management and trustee services.

Some months ago the Government of the Republic of China asked IFC to advise it on suitable legislation and incentives to enable a new group of trust and investment companies to provide long-term finance for business corporations and so reduce their present dependence on short-term local and foreign loans. This we have been doing.

At the request of the Government of Indonesia an IFC mission has visited that country to discuss a program for planning the development of money and capital markets, and we have made a number of specific proposals on the legislation that would be needed to accomplish this.

Iran has invited IFC to make a major study of its financial markets with the object of recommending ways in which existing financial institutions can be strengthened and a market for long-term bonds and equities developed.

The Ministry of Finance of Venezuela asked IFC to review a proposed National Securities Law. As a result we have made various recommendations on the structure of the capital market and on incentives to encourage investors. Many of these recommendations have been included in the draft law now being considered by that country's legislative body.

These are some examples of what IFC is trying to do in this important and difficult field. We are only beginning to feel our way, and we need all the help we can get. With this in mind, we are in touch with many investment banking and other private firms in the developed countries, including Japan, which can assist us -- either by investing in new financial institutions, or by providing training facilities, or in other ways.

It seems to me that IFC's efforts to promote foreign private investment in the developing countries as well as its efforts to thelp those countries strengthen and broaden their own capital base, are in complete accord with Japan's own objectives. Your country's commitment to development, and your conviction that private capital should play an important role in the development process, are known all over the world. IFC warmly welcomes Japanese cooperation in carrying out its task of promoting development through encouraging the growth of private enterprise.

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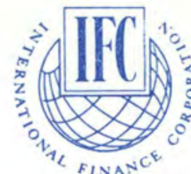

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IFC AND PRIVATE INVESTMENT

IN DEVELOPMENT

Speech by

William S. Gaud

Executive Vice President

International Finance Corporation

to

The Federation of Economic Organizations

(Keidanren)

Tokyo, Japan

March 15, 1972

I am greatly honored to be with you today and to have the chance of talking with you.

It is always a pleasure to return to Tokyo. I have had the good fortune to visit your country (and Tokyo) a number of times -- sometimes as a tourist, sometimes on business. This time my purpose is to report on the activities of the International Finance Corporation -- an organization of which Japan is a member -- and to indicate why I think Japanese bankers and businessmen may be interested in playing a greater part in IFC's activities than they have played in the past.

First, then, what is IFC? It is a member of the World Bank Group, and was set up in 1956 to promote development through encouraging the growth of private enterprise in the developing countries. Japan was one of the 32 countries which joined in establishing IFC. Today 96 countries are shareholders in IFC.

What does IFC do? Put briefly, IFC encourages foreign and local private investment in productive enterprises in the developing countries by itself investing in the same businesses. IFC also helps improve investment conditions in the developing countries by supporting the establishment or expansion of local capital markets, and of savings and similar institutions.

What resources does IFC have? First, our 96 member countries have subscribed our paid up capital of $107 million. Next, we have accumulated earnings of about $70 million. Finally, we can borrow from the World Bank up to four times the sum of our capital. In other words, we can borrow $428 million. So, in all, our resources amount to $600 million.

Like any investment bank, IFC follows certain basic investment policies. For example:

We do not make an investment if enough private capital is available on reasonable terms from other sources. It is our job to mobilize and supplement private capital, not to replace it.

We take great care that every investment we make should hold out the prospect of a profit and, just as important, that it should benefit the local economy. We do this through an on-the-spot appraisal by our international staff of financial, legal and technical experts. Over the years they have built up a considerable body of expert knowledge.

For example, among our engineers alone the average of industrial experience in developed and developing countries is 24 years. The Columbia Journal of World Business has called our staff "one of the most competent in the business."

The objects of our appraisal are to ensure that a project is sensibly structured and its concept and sponsorship sound; that management is competent and the proposed financing realistic; that a market exists for the company's products or services, and that it will benefit the local economy.

IFC's project studies are available to all our partners. They are especially useful to those thinking of investing in an area where the place itself, the prospects for foreign investment and the local laws, are unfamiliar. Our expertise does not cost our partners one penny.

Sometimes, those looking for IFC support have already made their own thorough investigations. In those cases we are quite ready to build our own assessments on the results of their investigations. Obviously it can be wasteful to do the same work twice.

Two other points. We always make sure that an IFC investment is acceptable to the government of the country in which the project is located. But we do not ask for, nor will we accept, government guarantees on our investments.

Now a word about the type of investments IFC makes. There is no standard form for an IFC investment. The type of investment, the investment mix and the terms of the investment vary from case to case depending upon the risk and the prospective return.

The point I want to emphasize is that IFC is flexible in its approach. Our investments are tailored to the case in hand. Our prime concern is to get a sound project moving.

Usually our investments range between $1 million and $20 million in any one project. Most consist of a share subscription together with a long-term loan. Sometimes we subscribe for shares only, when a loan is not needed. If equity funds are fully available from other sources but loan funds on reasonable terms are not, then IFC will make a straight loan.

IFC loans normally run for a period of seven to twelve years. After a grace period to cover construction of the project, amortization is by twice-yearly payments. Interest rates depend primarily upon the state of the world's long-term money markets. In the recent past most of our loans have carried an interest rate of 9 1/2%.

When we buy shares in a company we use dollars but denominate the investment in the currency of the host country and assume the resulting exchange risk. Our loans, on the other hand, are generally made in dollars and are repayable in dollars. We are, however, prepared to make loans in other currencies, including Japanese yen, in which case they will be payable in yen.

Here let me emphasize an important point. IFC money is not tied. The only requirement is that it be spent in one of the 117 countries belonging to the World Bank Group or in Switzerland. It can be used to buy equipment, to cover foreign exchange or local costs, for working capital or for any other normal business purpose.

Since IFC was established in 1956 we have invested $646 million in 180 enterprises in 48 developing countries. Other foreign and local investors, including Japanese companies, have invested $3,340 million in the same enterprises, making a total investment in them of $3,986 million.

Most of our investments have been made in Latin America, with Asia, Africa and Europe following in that order. More specifically, about 37% have been made in Latin America and the Caribbean, 30% in Asia, 18% in Africa and the Middle East and 15% in Europe -- that is, the less developed countries of Europe: Greece, Spain, Turkey and Yugoslavia.

In terms of figures, those percentages mean $243 million in Latin America and the Caribbean, $192 million in Asia, $117 million in Africa and the Middle East and $94 million in Europe.

Our investments have been mainly in manufacturing -- in construction materials, pulp and paper and textiles. We have also been active in fertilizers, iron and steel, tourism, utilities, mining, food processing, petrochemicals and projects related to agriculture.

Besides our investments in specific industries, $53 million of IFC's money has gone into 25 regional and local development finance companies and similar institutions.

We have made a $10 million loan to ADELA, which operates throughout Latin America and which has ten Japanese banks and five Japanese companies among its shareholders. In Africa we have made a $500,000 equity investment in SIFIDA, a promotional company in which 12 Japanese banks hold shares.

The 23 local development finance companies in which IFC has invested are active in 19 countries. Japanese banks are fellow investors with us in eight of those 23 companies -- in Asia, Africa, the Middle East and Europe.

A particularly interesting institution which we helped establish in 1969 is the International Investment Corporation for Yugoslavia, with a capitalization of $13.5 million. It was designed to take advantage of a Yugoslav law which permits Yugoslav enterprises, run and operated by workers' councils, to cooperate in joint ventures with foreign business enterprises. In this venture a group of Yugoslav banks and IFC were joined by banks in Europe and the United States and, at the suggestion of IFC, by three Japanese banks. This Corporation has already helped put together and finance a number of joint ventures -- all of them between Yugoslav and European firms -- and is working on many others.

How does IFC become involved in its investments? In various ways. In some cases, we are asked to put up the "last money" for a project -- to fill a gap after the rest of the financing has already been arranged. Or an industrialist may have a project in a less developed country and ask us to assess it and, if we approve it, to help him find financing for it. In such cases, by making a commitment at an early stage, IFC may make it possible to bring in other investors to complete the financing.

Sometimes we ourselves identify a promising project and seek the help of others in developing it. Or we may help in promoting a pilot company to make feasibility studies or to carry out operations on a test scale. At the moment we are doing this with a vegetable-growing project in West Africa, and in Mexico with a project designed to produce newsprint from bagasse.

However IFC becomes involved in a project, we never invest alone. We always have partners. Our investment in any one project is normally well under 50% of its total cost, and, as a rule, we provide less than 25% of any share capital. We do not take part in management, nor are we represented on the boards of the enterprises in which we invest. But we do maintain a continuing interest in those enterprises by field visits and periodic consultation with management.

I said that IFC always has partners. Let me expand that statement by adding that it is our policy to encourage local ownership of the ventures in which we invest. We will not invest in any enterprise that is 100% foreign owned. We will, on the other hand, invest in one that is 100% locally owned. An example of the latter is the expansion of a paper and pulp mill for which I signed the investment agreement in Iran last month.

I know that Japanese overseas investment is particularly attracted by joint ventures between foreign and local capital. Half the enterprises in which IFC has so far invested have been joint ventures. In a joint venture the skills and resources of the partners complement each other. The local partner provides not only capital, but knowledge of local market conditions; he can handle relations with labor and government and help arrange local currency financing. The foreign partner, besides capital, contributes industrial techniques and managerial experience.

Many people have the impression that even in joint ventures the bulk of the capital comes from foreign private investors. IFC's experience does not bear that out.

Over the whole range of IFC's investments local capital has contributed more than has foreign private capital. Of every dollar invested in projects directly financed by IFC, 19 cents were contributed by us, 36 cents by foreign private investors and 45 cents -- nearly half -- by local interests.

I now turn to the part that Japanese firms have played in IFC's activities. I have already mentioned that Japanese companies and Japanese banks have been our partners in projects and in development finance institutions.

Let me be more specific. I said that IFC had invested in 180 enterprises. What has been Japan's share? Of these 180 enterprises, Japan is a partner with IFC in ten development finance institutions and in seven industrial projects -- five textile mills, two in Indonesia and one each in Ethiopia, the Sudan and Nigeria; a steel mill in Malaysia; and a copper mine in Chile.

Considering Japan's support of development, and considering also Japan's commitment to private investment overseas, I would hope that Japan will do even more than she has done to promote development through investment in private enterprise.

There is ample evidence of Japan's support for development. In 1970 $1,824 million of government and private funds was made available to the developing countries by Japan -- .93% of your gross national product. That percentage greatly exceeded the comparable figure for Germany, or Canada or Sweden -- not to mention the United States. You have subscribed no less than 195 billion yen, or some $633 million, to World Bank bonds.

In Japan's development policies private funds have already played a large part. Current trends of thought indicate that Japanese private capital will play an even larger part in future.

An article in the Fuji Bank Bulletin recently stated: "Together with official development aid, private investment in overseas countries will assume an increasingly important role in Japan's economic cooperation with developing countries."

I see that your Industrial Structure Deliberative Council has estimated that your investments in Southeast Asia will increase ten times by 1980 -- to more than $7 billion. I see, too, that other government and banking sources have estimated that total Japanese overseas investments in 1980 will be about $25 billion.

I have also seen indications that an increasing amount of that investment will be channelled through international bodies.

I suggest that IFC is an international body ideally suited to support your intention to aid development through investment and trade. IFC's purposes are your purposes -- to make our own and promote other investments, especially in joint ventures, on terms which are fair both to investors and host countries, and to ensure that those investments fit the development plans of those countries.

In conclusion, let me briefly summarize some other reasons why IFC should be attractive to Japanese firms.

IFC offers varied opportunities for Japanese firms to invest in the whole developing world. Those investments can be direct, through partnership of a Japanese firm in a project, or indirect through a Japanese bank or financial institution buying a share in IFC's own investment. To date we have sold $174 million to other investors, local and foreign, including four Japanese banks and a financial institution, and also PICA.

Next, our money. We can provide long-term loans on reasonable terms when they are not available elsewhere, and IFC is the only international institution which regularly makes equity investments. Also, as I have already said, our money is untied.

Finally, because it is an international institution and part of the World Bank Group, IFC provides a useful "umbrella" for investors in the developing countries. Those countries are in the great majority among IFC's member states -- 73 out of 96. The governments of those countries know us. They accept our objectivity and the fact that we represent no special interests. They will listen to us when they will not listen to others. Because of this IFC can often play a valuable role in creating conditions in which foreign investment can safely and profitably take place.

IFC is eager to offer you its help and support in your plans for investment in the developing nations. We have welcomed your cooperation in the past, and, as I have said, we would welcome more -- much more -- of it in the future.

Our doors are always open to you. Come to see us, or, if you prefer, ask us to come to see you -- as you have kindly asked me to do today.

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WORLD BUSINESS NEEDS A NEW OUTLOOK

Speech by

William S. Gaud

Executive Vice President

International Finance Corporation

at a

Conference of the World Trade Institute

World Trade Center

New York

May 24, 1972

I am glad to be here today and want to express my thanks for being given an opportunity to participate in this conference on the interaction between international organizations and global business.

I represent an international organization which works with international business on a day-to-day basis. I share your feeling that international organizations and business should work toward common goals, and am therefore keenly interested in your effort to find effective ways for them to do so.

Why is such an effort necessary? Why is there a gap between international organizations and business? Why don't they have the same objectives? Why don't they work in harness easily and comfortably?

The answer is obvious. It is due to the different natures of the two beasts. International organizations are, by definition and design, international -- in their composition, in their actions and in their goals. Business, on the other hand, is basically national -- in its origins, in its outlook and in its objectives.

The international organizations - the United Nations, the International Monetary Fund, the World Bank Group, the Inter-American Development Bank and many more -- have all come into existence since World War II. They exist because their creators recognized that pre-1939 diplomatic, monetary and economic attitudes and practices did not fit the postwar world. Today's smaller and more interdependent world calls for greater cooperation, greater give and

take, greater recognition of the other fellow's point of view than did the world of yesterday. Hence the birth of the international organizations, each designed to cope with one aspect or another of our complex international environment.

Business is very different. Far from being a newcomer on the world scene, business -- foreign business -- has been with us from time immemorial. From the days of the Phoenicians and the Greeks on down through the East India Company to the multinational corporations of the 1970s, overseas trade and foreign investment have played an ever-increasing role in the world's affairs.

But -- and here is the nub of the problem -- foreign trade and investment have traditionally served national, and not international, interests. Four centuries ago, for example, Richard Hakluyt was enthusing over the prospect that raw materials from the American colonies would enable England to produce and export manufactures.* Two centuries later British attempts to preserve that situation were a considerable element in the breakaway of those colonies. But the idea persisted and spread that two-thirds of the earth's land surface existed to produce raw materials and provide markets for the remaining one-third. Embodied in the economic theory of comparative advantage, that idea was an essential element in the Industrial Revolution, as it was in the 19th Century scramble for colonies in which each of the European nations sought its own private source of raw materials.

These ideas and attitudes are still very much alive. Although more often than not the name of the game today is just plain profits rather than raw materials, business is still nationally oriented in its attitudes and actions.

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* A Discourse concerning Western Planting 1584

There has not been in the business world a change comparable to that which has led to the creation of international organizations in the diplomatic, monetary and fiscal fields.

This lack of change is at the root of many of the problems faced by businessmen and investors today arising out of the economic confrontation between the "have" countries and the "have not" countries.

Never before have we seen a conflict of economic interests on such a global scale. The "have" countries, aided by technological innovations and increased imports of raw materials from the "have not" countries, are raising still further their already high standards of living. The "have not" countries are trying to move along the same road -- some of them with more success than others, but all of them falling farther and farther behind the "have" countries.

Nor is that all. The "have not" countries include many erstwhile colonies which are now independent, vocal and ambitious states. This sharpens the economic confrontation and accentuates political tensions. Add the fact that many people in the industrialized countries still tend to think and behave as if the developing countries should be content with their historical economic role, and the result is a feeling in each group of countries that it is being taken advantage of by the other.

The "have" countries maintain that, through official aid and private investment, they have provided the fuse that has to a considerable extent fired economic development in the "have not" countries. Take the figures for U.S. private investment. In the 20 years after 1945 U.S. business was very active in establishing manufacturing subsidiaries in those countries. By 1967 the total investment figure for such enterprises in those countries had reached \$6.3 billion, and the number of subsidiaries of 187 U.S. firms totaled 300, with more than 900 product lines. In Latin America alone, according to U.S.

Department of Commerce figures, subsidiaries of U.S. firms in 1967 accounted for some 41 per cent of manufactured exports.

Investments by the "have" countries in the "have not" countries have expanded old industries and created new ones which have provided employment and managerial and technical training. Those industries have earned large amounts of foreign exchange for their host countries. Often, too, they have brought with them new ports, railroads and other utilities.

The "have not" countries see things very differently. In addition to asserting that official aid from the rich countries has been insufficient, they say that in any case they need trade rather than aid, and that the lowering of trade barriers since 1945 has been aimed primarily at promoting trade between the industrialized countries rather than at opening the markets of those countries to their own products.

The "have not" countries also point to the fact that postwar private investment by the "have" countries has increasingly gone to other developed countries. The figures for U.S. investment support this. In 1950 the United States invested $5.3 billion in Canada and Europe and about the same amount in Latin America, the Middle East and Africa. In 1968 $38.9 billion went to Canada and Europe and only $17.5 billion -- less than half as much -- went to Latin America, the Middle East and Africa.

As for foreign private investment within their own borders, the "have not" countries declare that this has taken place not on their terms but on the terms of the investing company or country -- frequently perpetuating an existing economic pattern instead of changing it. They claim that foreign capital has too often entrenched itself on the commanding heights of the economy; or that it is overly concentrated on the extraction of irreplaceable natural resources;

or that it has created economic enclaves. Altogether, in the view of the "have not" countries, foreign capital has too often been more interested in making and taking home quick profits than in assisting the host countries with their development.

The picture that I am painting is, of course, a gross oversimplification of a complex situation -- one in which reason and emotion have not yet found a proper balance. But the conflict is there, it is real and it is in the interest of us all that it be faced up to and dealt with.

How do we set about finding a balance and softening, if not eliminating, this confrontation between the "haves" and the "have nots" -- between the developed and the developing nations? There is a clue in two sentences from last year's Report of the Williams Commission on U.S. Trade and Investment Policy. Although used with reference to the United States, these two sentences apply to the whole developed and developing world:

> "The world has changed radically from the one we knew after World War II. We believe it is imperative that the United States, in its own interest, bring its international trade and investment policies into line with the new realities."

That Report was entitled "United States International Economic Policy in an Interdependent World." Please note the key phrase in that title: an interdependent world.

Interdependence is the basic reality of today's world. The developed countries cannot behave as if they were economically self-contained. Even with our advanced technology we do not have the resources to produce what we need to maintain, let alone to improve, our way of life. Similarly, the developing countries need the developed countries not merely as markets for their raw materials and for their increasing manufactures, but also to support their economic development.

In short, whether they like it or not, both groups of countries are interdependent. Neither can exist alone. They can attain their separate goals only by recognizing their common interests. And this calls for a change in attitude, and a considerable degree of accommodation, on both their parts.

What are the implications of this for business? I said a moment ago that business is still national in inspiration and activity. But business must realize that overseas trade and investment can no longer be regarded solely as an extension of national policy. It must become more international in its outlook, its objectives and its activities.

Some claim that this is already happening, and they point to the multinational corporations as evidence of it. Certainly those corporations have played, and are playing, an important part in increasing international trade and investment. Furthermore, they are usually efficient, they generally pay high wages to their local employees and their fair share of taxes to their host countries, and they frequently make a valuable contribution to exports.

Nevertheless, the phrase "multinational corporation" troubles me. It implies that a corporation is genuinely international in its ownership and in its policies. But are not the great bulk of multinational corporations merely national corporations operating overseas?

On the ownership and management of multinational corporations Mr. David Rockefeller, Chairman of The Chase Manhattan Bank, had this to say the other day:

> "If we define multinational corporations as those whose management is drawn from many nationalities and whose stock ownership is spread among many nationalities, not many today would pass such a test."

Nor are these corporations genuinely international in their policies. They carry on their overseas operations with one primary objective in mind: to increase the profits of their stockholders. That is fine as far as it goes. But it doesn't go very far if the stockholders are foreigners and important business decisions are taken without regard to their effect on the economy of the country in which the enterprise is located.

The very size of a multinational corporation can make a host country feel unhappy and helpless. A week or two back, a Belgian industrialist pointed out that some multinational corporations have sales far exceeding the state budgets of many developing countries. He expressed the view that at least to some extent such firms cannot be influenced by national public authorities. Almost simultaneously, an Indian newspaper -- the National Herald of New Delhi -- said that if timely action is not taken, multinational corporations will acquire such overwhelming power that they will not be controllable by individual governments.

It is scarcely surprising that distrust and resentment arise when great economic power is exercised in one country by an organization that has at heart the interests of another country. This is a perfect prescription for converting economic problems into political problems. Particularly when the host country is on the defensive anyway, either because of a colonial past, its smaller size or its state of development.

There are signs that these matters are beginning to be thought about. In Japan the Ministry of International Trade and Industry is drawing up a code for submission to the Organization for Economic Cooperation and Development in Paris designed to ensure that multinational corporations harmonize their policies with those of the countries in which they operate. Mr. David Rockefeller has said that multinational companies should provide more opportunities for local

ownership and management, and that foreign nationals should be appointed to their boards and policy-making committees.

Changes in the ownership, the management and the policies of multinational corporations will not come overnight. They will take time. Furthermore, for all their size and pervasiveness, multinational corporations are only part of the story. Any changes of heart that they may undergo cannot be the whole answer to the problem I have outlined to you. Its solution calls for more general and more fundamental rethinking on the part of both worlds.

For a start, we need to recognize that the barriers between the industrialized world and the so-called Third World are mental as well as material. If they are to be broken down ways must be found to root out the feelings of uneasiness, suspicion and distrust on which they are built. For one thing, both sides -- and I mean both sides -- must learn to distinguish economic issues from political issues, and deal with each in its own sphere.

In general, confrontation must be replaced by cooperation -- by a new relationship founded on mutual respect, a clear understanding of common interests and give and take on both sides. Neither side can write the rules to suit itself alone.

The developed countries must accept the fact that in trade the primary producers are no longer willing to live by exporting raw materials and importing manufactures -- especially when the prices of those manufactures have risen faster and farther than the prices of their raw materials.

The investor from a developed country can no longer think of profits alone. He must recognize that the day of wholly-owned overseas subsidiaries is over. He must understand that the host country is entitled to control its economy, and to ensure that foreign investment has a character and direction in keeping with its development plans. He must realize that his investment may not be appropriate for the host country. For instance, that country may need -- and

may insist upon -- labor-intensive projects rather than the capital-intensive projects which have bulked so heavily in U.S. investment overseas.

The developing countries must recognize that it is not always easy for the developed countries to accept fundamental changes in hitherto familiar economic patterns, or for them to understand the motive forces behind the economic nationalism of the Third World. Similarly, if they wish to continue to receive foreign investment -- and which of them can do without it -- the developing countries must accept as both reasonable and legitimate the desire of the foreign investor that his investment be made on equitable terms and with a fair prospect of profit, and that he be adequately assured of fair treatment in the years ahead.

How can we make a beginning in establishing this new relationship?

Much can be done within existing investment patterns to ensure that new investments fit the development objectives and priorities of the host country. More emphasis can be given to local participation in management and administration; to the training and employment of local personnel at the management and technical levels, and to giving local investors a voice in determining overall corporate policy. More can also be done in terms of joint ventures and promoting a greater degree of local ownership. These are matters in which, as the Williams Commission Report mentioned, U.S. firms have so far been less forward looking than have other foreign investors. Not least, prejudices based on nationality can be partially or wholly overcome by associating in a single enterprise investors from several industrialized countries.

Once business begins to move in these directions, to become more international in its outlook and in its objectives, it will have begun to bridge the gap between itself and the developing countries.

The international organization which I represent, the International Finance Corporation, can help in that bridge-building. For 16 years IFC has been promoting private enterprise in the developing countries by bringing together foreign and local capital. That is our sole purpose in life, and we are the only international institution with that sole purpose.

I will not take up your time by describing IFC's activities in detail, for our literature is here for any of you who may want it. But I would like to conclude by pointing to those aspects of our activities which show that IFC does indeed practice what I have been preaching.

As I have said, our object is to promote private enterprise in the developing countries. We do this by investing ourselves -- by way of long-term loans, or equity subscriptions or a combination of both -- in most types of industry in those countries. And we always insist that a project meet two basic criteria. It must be potentially profitable and it must contribute to the economic development of the country in which it is located.

Since 1956 we have ourselves invested $649 million in 180 enterprises in 48 countries -- usually in sums between $1 million and $20 million. But we don't invest alone. Our job is to supplement private capital, not to replace it. So we always have partners. To date other investors, including many U.S. and other foreign investors, have provided $2,927 million for the enterprises in which we have invested. Put another way, that means that for every dollar invested by IFC others have invested 4.5 dollars.

The partners in our investments have been local as well as foreign. The matter of local ownership is very important to us. So much so that IFC will not invest in any enterprise that is 100 per cent foreign owned. We will, on the other hand, support one that is wholly locally owned. By the same token we have frequently been able to bring about, in joint ventures, a mutually profitable partnership between foreign and local capital.

Over the whole range of IFC's investments, local capital has actually contributed more than foreign capital. Of every dollar invested in projects directly financed by us, 18 cents has come from IFC, 36 cents from foreign private investors and 46 cents -- nearly half -- from local investors.

I am convinced that some local ownership is an essential element for the lasting success of any future foreign private investment. But we in IFC go further in securing local support for our operations. We do not ask for, nor will we accept, government guarantees on our investments. We always make sure, however, that an IFC investment is acceptable to the government of the country in which the project is located -- that is to say, we will do nothing inconsistent with a country's development program.

This brings me to IFC's special character in the sphere of private investment in the developing world. It is, as I have said, the only international institution which exists solely for this purpose. It is owned by the 96 member governments which are its shareholders, 73 of them being governments of developing countries. All those governments know us and accept our objectivity. They recognize that IFC is a professionally competent organization which represents no special interests, has no political objectives and will promote only those investments which are of mutual benefit to private investors and developing countries alike.

Those governments will therefore often listen to us when they will not listen to others. Because of its unique position IFC can frequently play a valuable role in creating conditions in which foreign investment can safely and profitably take place, and can also be a helpful presence in a transaction if local conditions change for the worse.

IFC has already made some contribution towards building that new relationship which the developed and developing worlds must share if they are to prosper together. With the help of business, we can do more in the future.

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WORLD BUSINESS NEEDS A NEW OUTLOOK

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The answer is obvious. It is due to the different natures of the two beasts. International organizations are, by definition and design, international – in their composition, in their actions and in their goals. Business, on the other hand, is basically national – in its origins, in its outlook and in its objectives.

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But — and here is the nub of the problem — foreign trade and investment have traditionally served national, and not international, interests. Four centuries ago, for example, Richard Hakluyt was enthusing over the prospect that raw materials from the American colonies would enable England to produce and export manufactures.* Two centuries later British attempts to preserve that situation were a considerable element in the breakaway of those colonies. But the idea persisted and spread that two-thirds of the earth's land surface existed to produce raw materials and provide markets for the remaining one-third. Embodied in the economic theory of comparative advantage, that idea was an essential element in the Industrial Resolution, as it was in the 19th Century scramble for colonies in which each of the European nations sought its own private source of raw materials.

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*Discourse concerning Western Planting 1584.

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This lack of change is at the root of many of the problems faced by businessmen and investors today arising out of the economic confrontation between the "have" countries and the "have not" countries.

A Global Conflict of Economic Interests

Never before have we seen a conflict of economic interests on such a global scale. The "have" countries, aided by technological innovations and increased imports of raw materials from the "have not" countries, are raising still further their already high standards of living. The "have not" countries are trying to move along the same road — some of them with more success than others, but all of them falling farther and farther behind the "have" countries.

Nor is that all. The "have not" countries include many erstwhile colonies which are now independent, vocal and ambitious states. This sharpens the economic confrontation and accentuates political tensions. Add the fact that many people in the industrialized countries still tend to think and behave as if the developing countries should be content with their historical economic role, and the result is a feeling in each group of countries that it is being taken advantage of by the other.

The "have" countries maintain that, through official aid and private investment, they have provided the fuse that has to a considerable extent fired economic development in the "have not" countries. Take the figures for U.S. private investment. In the 20 years after 1945 U.S. business was very active in establishing manufacturing subsidiaries in those countries. By 1967 the total investment figure for such enterprises in those countries had reached $6.3 billion, and the number of subsidiaries of 187 U.S. firms totaled 300, with more than 900 product lines. In Latin America alone, according to U.S. Department of Commerce figures, subsidiaries of U.S. firms in 1967 accounted for some 41 per cent of manufactured exports.

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ated new ones which have provided employment and managerial and technical training. Those industries have earned large amounts of foreign exchange for their host countries. Often, too, they have brought with them new ports, railroads and other utilities.

The "have not" countries see things very differently. In addition to asserting that official aid from the rich countries has been insufficient, they say that in any case they need trade rather than aid, and that the lowering of trade barriers since 1945 has been aimed primarily at promoting trade between the industrialized countries rather than at opening the markets of those countries to their own products.

The "have not" countries also point to the fact that postwar private investment by the "have" countries has increasingly gone to other developed countries. The figures for U.S. investment support this. In 1950 the United States invested $5.3 billion in Canada and Europe and about the same amount in Latin America, the Middle East and Africa. In 1968 $38.9 billion went to Canada and Europe and only $17.5 billion – less than half as much – went to Latin America, the Middle East and Africa.

As for foreign private investment within their own borders, the "have not" countries declare that this has taken place not on their terms but on the terms of the investing company or country – frequently perpetuating an existing economic pattern instead of changing it. They claim that foreign capital has too often entrenched itself on the commanding heights of the economy; or that it is overly concentrated on the extraction of irreplaceable natural resources; or that it has created economic enclaves. Altogether, in the view of the "have not" countries, foreign capital has too often been more interested in making and taking home quick profits than in assisting the host countries with their development.

The picture that I am painting is, of course, a gross oversimplification of a complex situation – one in which reason and emotion have not yet found a proper balance. But the conflict is there, it is real and it is in the interest of us all that it be faced up to and dealt with.

Finding a Balance

How do we set about finding a balance and softening, if not eliminating, this confrontation between the "haves" and the "have nots" – between the developed and the developing nations? There is a clue in two sentences from last year's Report of the Williams Commission on U.S. Trade and Investment Policy. Although used with reference to the United States, these two sentences apply to the whole developed and developing world:

> "The world has changed radically from the one we knew after World War II. We believe it is imperative that the United States, in its own interest, bring its international trade and investment policies into line with the new realities."

That Report was entitled "United States International Economic Policy in an Interdependent World." Please note the key phrase in that title: an interdependent world.

Interdependence is the basic reality of today's world. The developed countries cannot behave as if they were economically self-contained. Even with our advanced technology we do not have the resources to produce what we need to maintain, let alone to improve, our way of life. Similarly, the developing countries need the developed countries not merely as markets for their raw materials and for their increasing manufactures, but also to support their economic development.

In short, whether they like it or not, both groups of countries are interdependent. Neither can exist alone. They can attain their separate goals only by recognizing their common interests. And this calls for a change in attitude, and a considerable degree of accommodation, on both their parts.

What are the implications of this for business? I said a moment ago that business is still national in inspiration and activity. But business must realize that overseas trade and investment can no longer be regarded solely as an extension of national policy. It must become more international in its outlook, its objectives and its activities.

The Multinational Corporations

Some claim that this is already happening, and they point to the multinational corporations as evidence of it. Certainly those corporations have played, and are playing, an important part in increasing international trade and investment. Furthermore, they are

usually efficient, they generally pay high wages to their local employees and their fair share of taxes to their host countries, and they frequently make a valuable contribution to exports.

Nevertheless, the phrase "multinational corporation" troubles me. It implies that a corporation is genuinely international in its ownership and in its policies. But are not the great bulk of multinational corporations merely national corporations operating overseas?

On the ownership and management of multinational corporations Mr. David Rockefeller, Chairman of The Chase Manhattan Bank, had this to say the other day:

> "If we define multinational corporations as those whose management is drawn from many nationalities and whose stock ownership is spread among many nationalities, not many today would pass such a test."

Nor are these corporations genuinely international in their policies. They carry on their overseas operations with one primary objective in mind: to increase the profits of their stockholders. That is fine as far as it goes. But it doesn't go very far if the stockholders are foreigners and important business decisions are taken without regard to their effect on the economy of the country in which the enterprise is located.

The very size of a multinational corporation can make a host country feel unhappy and helpless. A week or two back, a Belgian industrialist pointed out that some multinational corporations have sales far exceeding the state budgets of many developing countries. He expressed the view that at least to some extent such firms cannot be influenced by national public authorities. Almost simultaneously, an Indian newspaper – the *National Herald* of New Delhi – said that if timely action is not taken, multinational corporations will acquire such overwhelming power that they will not be controllable by individual governments.

It is scarcely surprising that distrust and resentment arise when great economic power is exercised in one country by an organization that has at heart the interests of another country. This is a perfect prescription for converting economic problems into political problems, particularly when the host country is on the defensive anyway, either because of a colonial past, its smaller size or its state of development.

There are signs that these matters are beginning to be thought about. In Japan the Ministry of International Trade and Industry is drawing up a code for submission to the Organization for Economic Cooperation and Development in Paris designed to ensure that multinational corporations harmonize their policies with those of the countries in which they operate. Mr. David Rockefeller has said that multinational companies should provide more opportunities for local ownership and management, and that foreign nationals should be appointed to their boards and policy-making committees.

Changes in the ownership, the management and the policies of multinational corporations will not come overnight. They will take time. Furthermore, for all their size and pervasiveness, multinational corporations are only part of the story. Any changes of heart that they may undergo cannot be the whole answer to the problem I have outlined to you. Its solution calls for more general and more fundamental rethinking on the part of both worlds.

Bases for a New Relationship

We need to recognize that the barriers between the industrialized world and the so-called Third World are mental as well as material. If they are to be broken down ways must be found to root out the feelings of uneasiness, suspicion and distrust on which they are built. For one thing, both sides – and I mean both sides – must learn to distinguish economic issues from political issues, and deal with each in its own sphere.

In general, confrontation must be replaced by cooperation – by a new relationship founded on mutual respect, a clear understanding of common interests and give and take on both sides. Neither side can write the rules to suit itself alone.

The developed countries must accept the fact that in trade the primary producers are no longer willing to live by exporting raw materials and importing manufactures – especially when the prices of those manufactures have risen faster and farther than the prices of their raw materials.

The investor from a developed country can no longer think of profits alone. He must recognize that the day of wholly-owned overseas subsidiaries is over. He must understand that the host country is entitled to control its economy, and to ensure that foreign investment has a character and direction in keeping with its development plans. He must realize that his investment may not be appropriate for the host country. For instance, that country may need – and may insist upon – labor-intensive projects rather than the capital-intensive projects which have bulked so heavily in U.S. investment overseas.

The developing countries must recognize that it is not always easy for the developed countries to accept fundamental changes in hitherto familiar economic patterns, or for them to understand the motive forces behind the economic nationalism of the Third World. Similarly, if they wish to continue to receive foreign investment – and which of them can do without it – the developing countries must accept as both reasonable and legitimate the desire of the foreign investor that his investment be made on equitable terms and with a fair prospect of profit, and that he be adequately assured of fair treatment in the years ahead.

How can we make a beginning in establishing this new relationship?

Much can be done within existing investment patterns to ensure that new investments fit the development objectives and priorities of the host country. More emphasis can be given to local participation in management and administration; to the training and employment of local personnel at the management and technical levels, and to giving local investors a voice in determining overall corporate policy. More can also be done in terms of joint ventures and promoting a greater degree of local ownership. These are matters in which, as the Williams Commission Report mentions, U.S. firms have so far been less forward looking than have other foreign investors. Not least, prejudices based on nationality can be partially or wholly overcome by associating in a single enterprise investors from several industrialized countries.

Once business begins to move in these directions, to become more international in its outlook and in its objectives, it will have begun to bridge the gap between itself and the developing countries.

IFC as a Bridge Builder

The international organization which I represent, the International Finance Corporation, can help in that bridge-building. For 16 years IFC has been promoting private enterprise in the developing countries by bringing together foreign and local capital. That is our sole purpose in life, and we are the only international institution with that sole purpose.

I will not take up your time by describing IFC's activities in detail, for our literature is here for any of you who may want it. But I would like to conclude by pointing to those aspects of our activities which show that IFC does indeed practice what I have been preaching.

As I have said, our object is to promote private enterprise in the developing countries. We do this by investing ourselves – by way of long-term loans, or equity subscriptions or a combination of both – in most types of industry in those countries. And we always insist that a project meet two basic criteria. It must be potentially profitable and it must contribute to the economic development of the country in which it is located.

Since 1956 we have ourselves invested $649 million in 180 enterprises in 48 countries – usually in sums between $1 million and $20 million. But we don't invest alone. Our job is to supplement private capital, not to replace it. So we always have partners. To date other investors, including many U.S. and other foreign investors, have provided $2,927 million for the enterprises in which we have invested. Put another way, that means that for every dollar invested by IFC others have invested 4.5 dollars.

The partners in our investments have been local as well as foreign. The matter of local ownership is very important to us. So much so that IFC will not invest in any enterprise that is 100 per cent foreign owned. We will, on the other hand, support one that is wholly locally owned. By the same token we have frequently been able to bring about, in joint ventures, a mutually profitable partnership between foreign and local capital.

Over the whole range of IFC's investments, local capital has actually contributed more than foreign capital. Of every dollar invested in projects directly financed by us, 18 cents has come from IFC, 36 cents

from foreign private investors and 46 cents – nearly half – from local investors.

I am convinced that some local ownership is an essential element for the lasting success of any future foreign private investment. But we in IFC go further in securing local support for our operations. We do not ask for, nor will we accept, government guarantees on our investments. We always make sure, however, that an IFC investment is acceptable to the government of the country in which the project is located – that is to say, we will do nothing inconsistent with a country's development program.

This brings me to IFC's special character in the sphere of private investment in the developing world. It is, as I have said, the only international institution which exists solely for this purpose. It is owned by the 96 member governments which are its shareholders, 73 of them being governments of developing countries. All those governments know us and accept our objectivity. They recognize that IFC is a professionally competent organization which represents no special interests, has no political objectives and will promote only those investments which are of mutual benefit to private investors and developing countries alike.

Those governments will therefore often listen to us when they will not listen to others. Because of its unique position IFC can frequently play a valuable role in creating conditions in which foreign investment can safely and profitably take place, and can also be a helpful presence in a transaction if local conditions change for the worse.

IFC has already made some contribution toward building that new relationship which the developed and developing worlds must share if they are to prosper together. With the help of business, we can do more in the future.

No Overall Trend Seen

Economic Nationalism Claims Held Unrealistic

Journal of Commerce Staff

There is no overall trend towards economic nationalism, and development of this form of nationalism is "exaggerated," according to William S. Gaud, executive vice president of the International Finance Corp. (IFC).

Mr. Gaud made this comment yesterday at a press luncheon held in connection with release of the IFC annual report. With the exception of many African nations and some countries in Latin America, economic nationism is not a trend, he said.

In commenting on the situation in Chile, Mr. Gaud said two "relatively small" copper firms supported by the IFC have not been touched by the government. However, an IFC support firm in pulp and paper and another in the food industry are in the industrial categories which the government says it will take over, according to Mr. Gaud.

The adverse action against foreign investment, Mr. Gaud said is concentrated against wholly owned firms and such companies which attempt to get back their entire capital investment in "three years" through high prices.

Defaults on loans have totaled more than $2 million since the IFC was organized, Mr. Gaud said, from five loans. Two of the loans are located in Peru, and the defaults are primarily because of the IFC's inability to collect foreign exchange, he said. The companies, however, are able to pay.

High Interest Rates

Loans in the past year have been made at an interest rate of 9.5 per cent. Asked about the impact of this rate on the widening gap between developed and developing nations, Mr. Gaud said the impact depends on the areas in which the investments are made. If made in the area of exports, then the investments contribute to the country's economy, he said.

"We charge high interest rates," he said, adding that IFC supports private enterprise and such firms "should be able to live on commercial loans."

Countries which have "sensible" industrial policies without hurtful economic nationalism according to Mr. Gaud include: Taiwan, Mexico, Brazil, Korea, Yugoslavia, and Indonesia.

IFC reported a total $115.6 million in investments during fiscal 1972 through 23 projects in 17 countries. An additional $459 million was placed in the same enterprises by other investors during the same period, the IFC reported.

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William S Gaud

IFC Luncheon Speech

September 27, 1972

Shoreham Hotel

Washington, D.C.

My colleagues in IFC and I warmly welcome you to this luncheon. It is an occasion to which we all look forward, and which we always enjoy, because of the opportunity it gives us to meet old friends and to make new ones.

Last year we gathered round these tables in what might have been called the slipstream of the economic measures announced by the United States on August 15, 1971. Inevitably, the focus of interest of those attending last year's Bank/Fund Meetings was the international monetary crisis which followed those measures and which was still in progress as we met.

Where do we find ourselves this year? Not in a crisis, but rather in a period of continuing uncertainty as far as international monetary matters are concerned. Uncertainty as to what will happen on the monetary front, uncertainty as to when it will happen, and uncertainty as to the effect that the still uncertain result, which will come at an as yet uncertain time, will have on an already uncertain investment climate. I hope I make myself clear. What I am trying to say, as simply as I can, is that we don't know what's going to happen.

Last year I described IFC's position in this kind of situation as that of an innocent bystander who was neither responsible for the crisis nor in a position to

solve it. Sometimes, I added, innocent bystanders get hurt. And, depending upon what happened, 1972 might see a sharp cutback in the flow of private capital to the developing countries, in which case IFC's activities would suffer and -- far more important -- the developing countries would be unable to obtain the resources needed for the development and support of their private sectors.

Happily, the worst has not happened. Of course, no one engaged in international business likes prolonged uncertainty or thrives on it. This is as true of IFC as it is of anyone else. But in fact the indications are that the flow of foreign private capital to the developing world has not been retarded.

IFC's experience this past year certainly supports this conclusion. It is never easy to determine what "might have been." In different circumstances -- had there been more stability on the monetary front -- IFC might have done better in fiscal 1972 than it did. But even so, with commitments of $116 million, we achieved, by a margin of some $4 million, the highest annual total for our investments since IFC was established in 1956.

This is encouraging. In a year which was not without its difficulties we managed to maintain -- and even slightly increase -- our investment momentum. But we shouldn't be carried away by this. It is always a mistake to judge a corporation's performance by what it does in a single fiscal year. So while I am glad that we did a relatively large volume of business in fiscal 1972, what strikes me as much more significant is the fact that, of the total gross commitments of nearly $700 million made by IFC in the 16 years of its existence, nearly half were made in the last three years.

I don't know that it's a very good idea to measure the effectiveness of an organization by the amount of money it invests. To begin with, there is the question of whether our investments are any good. Good from two standpoints: whether they

will be profitable, and whether and to what extent they will contribute to the economies of the developing countries in which they are made. Happily, it usually takes a little time to find out -- and meanwhile you can bask in the sunshine of your hopes and expectations. But more seriously, IFC spends a great deal of time and effort on matters which do not show up in its list of investment commitments, yet which contribute to achieving its basic objectives. Our work with development finance companies, much of the work of our capital markets department, our work on follow-ups, promotional work. A host of activities that fall into the general category of technical assistance.

There is also what might be called the negative side of our investment activities. During fiscal 1972, for example, IFC made 23 investments. Yet during the year we worked on nearly ten times that number of projects. And that was not unusual. Every year we invest in a very small proportion of the projects which we review and on which we work. Many fall out, frequently for good reason. Others go forward without us, sometimes in a different form as a result of our advice.

A cynic once said that IFC does more for the developing countries by killing bad projects than by investing in good ones. I trust that is an exaggeration. But, in any case, IFC's staff members spend more of their time on activities which, while they yield us no concrete return and do not show up in the list of our investment commitments, I hope and believe are of benefit to our member countries.

Much of this work is done in the developing countries themselves. Let no one think that IFC operates at long range from an ivory tower in Washington. Far from it. IFC is a travel-prone organization. In fiscal 1972 our engineering department, with a staff of 16, undertook 95 missions which together consumed an amount of time equal to about four man years.

More important than what we have done in the past is what we will do in the future. That is hard to predict with any degree of confidence.

I do not have to remind this audience that the future of foreign investment is full of uncertainties. However, it would be as much of a mistake to exaggerate those uncertainties as it would be to understimate them. Despite setbacks in some areas there are many encouraging signs. During the past year, for example, many of the developing countries, and many institutions in those countries, have manifested a greater desire than even to obtain access to international capital markets. At the same time bankers in industrialized countries have shown a greater receptivity to such approaches. This is a matter of first importance in terms of initating a direct flow of capital from the developed countries to the developing countries without the intervention of governments or international aid agencies. That, after all, is our ultimate goal - to work ourselves out of a job.

It would be difficult enough to predict IFC's future course if, like most investors, IFC had only to make up its own mind as to whether it was willing to accept the business, political and other risks inherent in specific investment opportunities. But we are not like other investors. We differ from them in that we are always a minority investor, never able to act alone and always dependent upon the investment decisions of others.

In a very real sense IFC is not its own master. No project in which it is ready to invest can go forward without the support of private investors. A favorable investment decision by IFC means nothing unless other investors concur in that decision and are willing to lay their money on the line along with ours.

This is why your views on matters relating to and bearing upon investment in the developing countries are of direct and crucial concern to us. It also explains our eagerness to do what we can to improve the climate for investment, and increase understanding between the developed and the developing worlds. For in the long run all our activities, visible and not visible, will be of little

account if uneasiness, suspicion and distrust poison international business relationships and frustrate private investment.

The very existence of IFC, with a membership drawn from both worlds, is evidence that cooperation between the two in the area of private business and private investment is both possible and to their mutual benefit. We in IFC will continue to try by every means within our power to encourage and broaden this cooperation.

In conclusion, thank you for coming today and -- if we don't see you sooner, as I hope we will -- we will look forward to seeing you in Nairobi a year from now.

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PRIVATE FOREIGN INVESTMENT IN THE '70s

Speech by
William S. Gaud
Executive Vice President
International Finance Corporation
at the
Annual Meeting of the
Association Internationale
pour la Promotion et la Protection
des Investissements Privés en Territoires Étrangers

Munich
October 31, 1972

I am honored by your invitation to address the Annual Meeting of your Association, and I am especially glad to be with you because your Association and the International Finance Corporation have certain basic common purposes.

We both recognize the vital role that private enterprise can play in promoting economic and social progress in the developing countries. We both exist to encourage, in our individual ways, the investment of private funds in those countries. We both appreciate that, to quote from your statement of aims and activities:

> "An essential prerequisite for continuing flows of adequate amounts of private foreign investment, and the technical and managerial expertise which accompanies it, is the mutual confidence of the host country and the investor in one another."

It must be said that at present such confidence is widely lacking. In some areas it seems as if the investment climate is going through one of Buchan's cold spells. There are many countries in Asia, in Africa and

in Latin America where foreign private investment is welcome. But in others foreign private investment is decidedly not popular, and in a few countries the nationalization and expropriation of private business interests – sometimes domestic as well as foreign – seem to be the order of the day.

This is unfortunate. Such policies put a brake on economic growth; they disenchant the foreign investor and thereby interrupt the flow of capital, technology and management skills, and discourage local entrepreneurs.

Different countries give different reasons for adopting policies that make life difficult for foreign investors. But one thing is certain: all such policies reflect the absence of mutual confidence between host countries and investors.

Changes in the Investment Scene

Before trying to answer the question of how this confidence can be restored, let me first review briefly some of the changes that have taken place in the overseas investment scene in the last few decades. For I fear it is not generally recognized how important a part these changes have played in creating today's inclement investment climate.

Fifty years ago, in the aftermath of World War I, the political pattern of overseas private investment was still, broadly speaking, what it had been in the preceding half century. Large areas of what we now call the developing world were colonies, to which investment flowed primarily from their respective mother countries. Those countries which were not colonies, the Latin American republics for example, received investments from various sources – principally from Britain, although the United States was catching up.

The economic pattern of overseas private investment had also changed little, if at all, from that of the nineteenth century. Companies which were by today's standards small to medium sized usually had single investments in single countries – or at most single investments in two or three adjoining countries. Those investments were in clearly-defined spheres – in banks, in public utilities, in extractive industries or in agriculture. In those days foreign capital concentrated primarily on either providing local services or

producing raw materials which were traded for manufactured imports. Often, similar locally-owned enterprises prospered alongside these foreign undertakings.

In this situation the colonial powers were investing on what they considered to be their home ground, and the colonies were in no position to complain, even if they wanted to. Elsewhere – outside the colonies – both private investors and host countries were relatively happy. The foreign investors received their dividends, while the host countries rarely had reason to feel that any one foreign country or foreign company had a life or death grip on the local economy.

After World War II these patterns began to shift. What Mr. Harold Macmillan called the "winds of change" began to blow through the developing world. In Asia and Africa colonies began to pass into history, to be replaced by independent countries very conscious of their new sovereignty. Simultaneously, the Latin American republics, although already possessing political independence, began to aspire to that economic independence which they felt had so far eluded them. All Third World countries, whether new or old, were determined to be masters in their own houses.

This radical change in the political pattern in which foreign private overseas investment had hitherto taken place was accompanied by an equally marked change in the economic pattern. But a change of a different nature. For while the political pattern became fragmented by the appearance of numerous new countries, the economic pattern began to change in the direction of fewer but larger companies investing overseas.

This latter result came about as the consequence of changing circumstances in both the developing and the developed worlds. In the developing world it ceased to be profitable for individual foreign companies to own railways in Argentina, coffee plantations in Brazil or flour mills in Chile – activities which the local populace in any case now regarded as anachronistic when carried on by foreigners. In the developed world, economies of scale increasingly brought about takeovers and other types of amalgamation which produced new giant corporations.

These new corporations continued to invest overseas, soon to a record extent. By the end of the

1960s the book value of the foreign investments of companies based in the United States, Europe and Japan was well over $100,000 million, and their real value probably anything up to double that figure.

Furthermore, the nature of that investment, in the developing world, was quite different from anything that had gone before. Those countries, new and not so new, found themselves, as the saying goes in the United States, in a new ball game.

For a start, they were in many cases receiving larger foreign investments than before. Instead of the old single company with an investment in a single sector of the local economy, new giant companies were investing on a scale which often gave them a local monopoly, if not a place on the commanding heights of the national economy. Also there was vastly increased investment in the extractive industries, resulting in even greater depletion of natural resources.

The character of foreign investment had also changed. The new corporations took the view – and in many cases with good reason – that political boundaries were too restrictive of economic efficiency, and that nation states did not provide a broad enough base for profitable operation. They therefore adopted the practice of making an investment in one country that was carefully calculated in relation to its effect on parallel investments in other countries or continents, and to its place in overall corporate strategy.

One result of this policy has been that, instead of providing goods and services for local consumption, these new investments have often gone into foreign-owned processing and manufacturing industries designed to produce, at relatively low cost, goods for foreign consumption. This is all well and good if a substantial share of the profits remains in the host country. It is not so good, in host country eyes, if the profits as well as the goods are exported.

The extent of this geographical shift in manufacturing facilities is illustrated by the fact that in 1971 U.S. world business corporations were responsible for the production of goods outside the United States equal in value to one quarter of the American gross national product of one trillion dollars. It has been estimated that within a few years not much more than ten per cent of the total foreign sales of U.S. industry will be directly exported from the United States. The rest will be produced by U.S. owned and controlled subsidiaries overseas – many of them in the developing countries.

Figures for France and Britain reflect the same trend. They show that French subsidiaries abroad now produce as much as the total value of France's exports, while British overseas subsidiaries produce twice the value of Britain's own industrial exports.

The Multinational Corporations

Perhaps more alarming to the developing countries than the scale and character of modern foreign private investment has been the size of the companies making those investments. Of the hundred largest economic entities in the world today only fifty are nation states. The other fifty are giant corporations – the so-called multinational corporations – and of these two-thirds are owned in the United States.

Let me put that another way. The sales of General Motors last year – more than $28 billion – exceeded the gross national product of all but 14 or 15 countries in the world.

Of course, not all these global corporations are American. In fact, other international companies with famous names – some of them represented here this afternoon – may be said to have blazed the trail and set United States corporations an example.

It is sometimes said that, in terms of the so-called Third World, these giant corporations are more effective instruments for economic development than earlier and smaller-scale forms of private investment – that they can provide more capital, more entrepreneurial, management and technical skills; and deploy them more effectively.

Mr. William Spencer, President of the First National City Bank, summed up this view in a recent address to the American Chamber of Commerce in Germany when he said that the activities of the multinational corporations had resulted in

> "a global economy more productive and inventive than the world has ever seen. Never before under any system have talents and knowledge, resources and capital, all gathered from far afield, spread their benefits over so great a range."

That may be so. But there is no denying that, given their scale, the activities of these giant corporations have inevitably attracted widespread attention – in the industrialized no less than in the developing countries. And the attention they attract is not always favorable.

The activities of multinational corporations have been intensively debated in United Nations bodies in recent months. It has now been proposed to set up a top-level U.N. group to study their impact on both development and international relations.

In the United States these corporations are coming under increasing Congressional scrutiny, especially in terms of the influence they may have on U.S. foreign policy. In Canada and Australia there is a rising demand for limitation of the industrial activities of foreign companies. In Europe there have been outcries at the real or supposed encroachments of U.S. corporations. Recently the so-called Colonna Report, prepared by the staff of the European Economic Community, reflected opinions which may be transformed into measures to control the expansion of global corporations within the Community. In Japan foreign direct investment is severely limited.

The developing countries, sensitive and not always entirely secure in their new independence, are even more concerned over these corporations. Within their borders they see them as often more powerful economically than the state itself, and as pre-empting whole sectors of economic activity to the detriment of local initiative, or, perhaps, to the depletion of natural resources. Beyond their borders they see them sprawling across national frontiers in accordance with a global corporate strategy devised by and for the benefit of managers and shareholders thousands of miles away, with little regard for the economic priorities of the state in which they are located.

It is not too surprising that these countries sometimes feel themselves to be in the grip of corporations whose size and activities seem to be a negation of that national sovereignty they have so lately won, or of which they have become more conscious. They tend to react by doing their best to ensure that no enterprise of any consequence for the national economy, or with significant local public exposure, should remain solely, or, sometimes, even partially, owned by foreigners.

It is true, of course, that many of these giant corporations are good citizens of the countries in which they operate and conform to local economic and social policies. It is also true that in many instances the fears and suspicions of those corporations felt by the developing countries are exaggerated or even wholly unfounded. But we cannot deny that those fears and suspicions exist, that they tend to color the attitude of the developing countries towards all forms of foreign private investment, and that we have in many parts of the world what amounts to a confrontation between foreign private investors and host countries.

Patterns for the Future

What can be done to improve the situation?

To begin with, everything possible must be done to bring about a change in attitude on the part of both foreign investors and host countries. For foreign investors this means a recognition of the political and economic changes which I mentioned earlier, and a greater understanding of the problems and outlook of the developing nations. Foreign investors must learn to see themselves as others see them, and to be more responsive to the sensitivities of the host countries in which they are operating. For host countries it means a recognition that foreign private investors are not necessarily ogres, that they can provide badly needed capital, technology and managerial expertise, and that they are entitled to fair treatment. In sum, investors and host countries alike must accept the obvious fact that reasonable terms for the one and economic benefit for the other are not mutually exclusive but can readily go hand in hand.

Secondly, we should continue the efforts already begun – efforts in which your organization has been deeply engaged – to find new ways of fitting foreign private investment more comfortably into the modern world.

Encouraging developments have been the growing use of joint ventures, the establishment of bilateral investment insurance schemes and the increasing number of bilateral investment promotion and protection agreements concluded over the last decade. Also encouraging has been the growing discussion of other ways in which to bring about a new relationship

between foreign private investors and host countries.

For instance, there have been suggestions that the emphasis in future foreign investment overseas should be shifted from the provision of capital to the provision of services.

The normal form of overseas investment is one in which special rights are secured in the host country which are deemed to be permanent. That tends to result in a perpetuation of foreign control over local industry. As an alternative to this traditional method of investment, it has been proposed that foreign investors should concentrate on obtaining contracts – with payment being made in cash or kind at fixed or variable amounts – to provide management and technology over a definite term, supplying capital as a secondary consideration, and then only when it cannot be obtained locally.

This idea is, of course, a variant of the concessions granted to the British-built railways in South America, and of the contracts under which the international oil companies have operated in the oil producing countries.

Other and sometimes more radical proposals have been put forward, many of them in the United States, where, as I have said, so many of these giant corporations are based.

Mr. A. W. Clausen, President of the Bank of America, has supported the idea of an international code to regulate relations between foreign investors and host countries – a proposal on which the International Chamber of Commerce has been working.

Another proposal has come from Mr. George Ball, former U.S. Under Secretary of State and now a Wall Street banker. He has suggested that global corporations should become denationalized or internationalized, and that they should operate under an International Companies Law established by multilateral treaty and administered by a body made up of representatives from signatory countries. In Mr. Ball's concept that body

> "would not only exercise normal domiciliary supervision, but would also enforce the kinds of arrangements that are normally included in treaties of establishment. Any company willing to accept the jurisdiction of the International Companies Law could apply for an international charter."

Both these proposals are interesting, but it would take time to move from theory to practice on either of them. Mr. David Rockefeller, Chairman of the Chase Manhattan Bank, has made a more immediately practicable suggestion. He has said that multinational corporations should become genuinely multinational. He has proposed that those corporations should provide more opportunities for local ownership, and that foreign nationals should be appointed to their boards and policy-making committees.

Mr. Rockefeller has put his finger on the prime cause of the difficulties facing foreign private investors in the developing countries. It is not foreign investment that most of them object to, but foreign ownership and control. If ownership and control could be shared more widely I am confident we would see a rapid and marked change for the better in the overseas investment climate.

Some foreign investors will not take kindly to this suggestion. But if they are not prepared to yield to local interests a measure of ownership and control, I frankly feel they will be better off at home. For in my judgment absentee landlordism in industry has had its day.

One hears a lot of talk about the difficulty of finding local partners, and living with them in peace and harmony after they are found. That has not been the experience of the International Finance Corporation. IFC is unlike the typical multinational corporation in many respects, but it is nevertheless truly multinational. Its shares are owned by 97 member countries, some developed and some developing. We have invested in 48 developing countries, and the promotion of more widely shared investment and ownership is one of our basic objectives. We will invest in no enterprise unless there is immediate or early provision for some degree of local ownership. That means we will not invest in a 100 per cent foreign-owned subsidiary, but we will invest in a 100 per cent locally-owned enterprise.

All told, we have invested $708 million of our own funds in projects with a total cost of just over $3,000 million. You may be surprised to learn where this money has come from. Of every dollar invested in these projects, 19 cents came from IFC, 37 cents came from foreign private investors and 44 cents – nearly half – from local interests.

IFC's participation in a project – particularly as a holder of equity but also as a long-term lender – provides a balancing factor between the interests of foreign private investors and host countries. Time and again our presence in a project has led to the smoothing of difficulties, the removal of misunderstandings and the creation of that feeling of mutual confidence between foreign investors and host countries which is so essential to a continuing flow of private foreign investment.

Any fresh ideas as to what more can be done to build up this mutual confidence are naturally of great interest to us, as they are to you. I hope the discussion of ways to increase mutual confidence will continue.

But I would like to emphasize one point above all others. Discussion restricted to the investing countries will not of itself produce the mutual confidence that is needed. Confidence is based on understanding. And understanding can be achieved only if the discussion is broadened to include local investors in the developing countries and representatives of those countries themselves.

For our part, we in IFC will do what we can to encourage such broadened discussion, with a view to improving the investment climate and thereby increasing the flow of private investment to the developing countries.

Additional copies may be obtained by writing to the Publications Section, Room A110, International Finance Corporation, 1818 H Street, N.W., Washington, D.C. 20433.

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FOREIGN PRIVATE INVESTMENT IN THE '70s

Speech by

William S. Gaud

Executive Vice President

International Finance Corporation

to the

Annual Meeting of the

International Association for the

Promotion and Protection of

Private Foreign Investments

Munich

October 31, 1972

MUNICH SPEECH

I am honored by your invitation to address the Annual Meeting of your Association. I am especially glad to be with you because your Association and the International Finance Corporation have certain basic common purposes.

We both recognize the vital role that private enterprise can play in promoting economic and social progress in the developing countries. We both exist to encourage, in our individual ways, the investment of private funds in those countries. We both appreciate that, to quote from your statement of aims and activities:

> "An essential prerequisite for continuing flows of adequate amounts of private foreign investment, and the technical and managerial expertise which accompanies it, is the mutual confidence of the host country and the investor in one another."

It must be said that at present such confidence is widely lacking. In some areas it seems as if the investment climate is going through one of Buchan's cold spells. There are many countries in Asia, in Africa and in Latin America where foreign private investment is welcome. But in others foreign private investment is decidedly not popular, and in a few countries the nationalization and expropriation of private business interests -- sometimes domestic as well as foreign -- seem to be the order of the day.

This is unfortunate. Such policies put a brake on economic growth; disenchant the foreign investor and thereby interrupt the flow of capital, technology and management skills; and discourage local entrepreneurs.

Different countries give different reasons for adopting policies that make life difficult for foreign investors. But one thing is certain: all such policies reflect the absence of mutual confidence between host countries and investors.

Before trying to answer the questions of how this confidence can be restored, let me first review briefly some of the changes that have taken place in the overseas investment scene in the last few decades. For I fear it is not generally recognized how important a part these changes have played in creating today's inclement investment climate.

Fifty years ago, in the aftermath of World War I, the political pattern of overseas private investment was still, broadly speaking, what it had been in the preceding half century. Large areas of what we now call the developing world were colonies, to which investment flowed primarily from their respective mother countries. Those countries which were not colonies, the Latin American republics for example, received investments from various sources -- principally from Britain, although the United States was catching up.

The economic pattern of overseas private investment had also changed little, if at all, from that of the nineteenth century. Companies which were by today's standards small to medium sized usually had single investments in single countries -- or at most single investments in two or three adjoining countries. Those investments were in clearly-defined spheres -- in banks, in public utilities, in extractive industries or in agriculture. In those days foreign capital concentrated primarily on either providing local services or producing raw materials which were traded for manufactured imports. Often, similar locally-owned enterprises prospered alongside these foreign undertakings.

In this situation the colonial powers were investing on what they considered to be their home ground, and the colonies were in no position to complain even if they wanted to. Elsewhere -- outside the colonies -- both private investors and host countries were relatively happy. The foreign investors received their dividends, while the host countries rarely had reason to feel that any one foreign country or foreign company had a life or death grip on the local economy.

After World War II these patterns began to shift. What Mr. Harold Macmillan called the "winds of change" began to blow through the developing world. In Asia and Africa colonies began to pass into history, to be replaced by independent countries very conscious of their new sovereignty. Simultaneously the Latin American republics, although already possessing political independence, began to aspire to that economic independence which they felt had so far eluded them. All Third World countries, whether new or old, were determined to be masters of their own houses.

This radical change in the political pattern in which foreign private overseas investment had hitherto taken place was accompanied by an equally marked change in the economic pattern. But a change of a different nature. For while the political pattern became fragmented by the appearance of numerous new countries, the economic pattern began to change in the direction of fewer but larger companies investing overseas.

This latter result came about as the consequence of changing circumstances in both the developing and the developed worlds. In the developing world it ceased to be profitable for individual foreign companies to own railways in Argentina, coffee plantations in Brazil or flour mills in Chile -- activities which the local populace in any case now regard as anachronistic when carried

on by foreigners. In the developed world economies of scale increasingly brought about takeovers and other types of amalgamation which produced new giant corporations.

These new corporations continued to invest overseas, soon to a record extent. By the end of the 1960s the book value of the foreign investments of companies based in the United States, Europe and Japan was well over $100,000 million, and their real value probably anything up to double that figure.

Furthermore, the nature of that investment, in the developing world, was quite different from anything that had gone before. Those countries, new and not so new, found themselves, as the saying goes in the United States, in a new ball game.

For a start, they were in many cases receiving larger foreign investments than before. Instead of the old single company with an investment in a single sector of the local economy, new giant companies were investing on a scale which often gave them a local monopoly, if not a place on the commanding heights of the national economy. Also, of course, there was vastly increased investment in the extractive industries, resulting in even greater depletion of scarce natural resources.

The character of foreign investment had also changed. The new corporations took the view -- and in many cases with good reason -- that political boundaries were too restrictive of economic efficiency, and that nation states did not provide a broad enough base for profitable operation. They therefore adopted the practice of making an investment in one country that was carefully calculated in relation to its effect on parallel investments in other countries or continents, and to its place in overall corporate strategy.

One result of this policy has been that, instead of providing goods and services for local consumption, these new investments have often gone into foreign-owned processing and manufacturing industries designed to produce, at relatively low cost, goods for foreign consumption. This is all well and good if a substantial share of the profits remains in the host country. It is not so good, in host country eyes, if the profits as well as the goods are exported.

The extent of this geographical shift in manufacturing facilities is illustrated by the fact that in 1971 U.S. world business corporations were responsible for the production of goods outside the United States equal in value to one quarter of the American gross national product of one trillion dollars. It has been estimated that within a few years not much more than ten per cent of the total foreign sales of U.S. industry will be directly exported from the United States. The rest will be produced by U.S. owned and controlled subsidiaries overseas -- many of them in the developing countries.

Figures for France and Britain reflect the same trend. They show that French subsidiaries abroad now produce as much as the total value of France's exports, while British overseas subsidiaries produce twice the value of Britain's own industrial exports.

But perhaps more alarming to the developing countries than the scale and character of modern foreign private investment has been the size of the companies making those investments. Of the hundred largest economic entities in the world today only fifty are nation states. The other fifty are giant corpoations -- the so-called multinational corporations -- and of these two-thirds are owned in the United States.

Let me put that another way. The sales of General Motors last year -- more than $28 billion -- exceeded the gross national product of all but 14 or 15 countries in the world.

Of course, not all these global corporations are American. In fact other international companies with famous names -- some of them represented here this afternoon -- may be said to have blazed the trail and set United States corporations an example.

It is sometimes said that, in terms of the so-called Third World, these giant corporations are more effective instruments for economic development than earlier and smaller-scale forms of private investment -- that they can provide more capital, more entrepreneurial, management and technical skills and deploy them more effectively.

Mr. William Spencer, President of the First National City Bank, summed up this view in a recent address to the American Chamber of Commerce in Germany when he said that the activities of the multinational corporations had resulted in

> "a global economy more productive and inventive than the world has ever seen. Never before under any system have talents and knowledge, resources and capital, all gathered from far afield, spread their benefits over so great a range."

This may be so. But there is no denying that, given their scale, the activities of these giant corporations have inevitably attracted widespread attention -- in the industrialized no less than tn the developing countries. And the attention they attract is not always favorable.

The activities of multinational corporations have been intensively debated in United Nations bodies in recent months. It has now been proposed to set up a top-level U.N. group to study their impact on both development and international relations.

In the United States these corporations are coming under increasing congressional scrutiny, especially in terms of the influence they may have on U.S. foreign policy. In Canada and Australia there is a rising demand for limitation of the industrial activities of foreign companies. In Europe there have been outcries at the real or supposed encroachments of U.S. corporations. Recently the so-called Colonna Report, prepared by staff of the European Economic Community, reflected opinions which may be transformed into measures to control the expansion of global corporations within the Community. In Japan foreign direct investment is severely limited.

The developing countries, sensitive and not always entirely secure in their new independence, are even more concerned over these corporations. Within their borders they see them as often more powerful economically than the state itself, and as pre-empting whole sectors of economic activity to the detriment of local initiative or, perhaps, to the depletion of natural resources. Beyond their borders they see them sprawling across national frontiers in accordance with global corporate strategy devised by and for the benefit of managers and shareholders thousands of miles away, with little regard for the economic priorities of the state in which they are located.

It is not too surprising that these countries sometimes feel themselves to be in the grip of corpoations whose size and activities seem to be a negation of that national sovereignty they have so lately won, or of which they have become more conscious. They tend to react by doing their best to ensure that no enterprise of any consequence for the national economy or with significant local public exposure should remain solely or, sometimes, even partially, owned by foreigners.

It is true, of course, that many of these giant corporations are good citizens of the countries in which they operate and conform to local economic and social policies. It is also true that in many instances the fears and suspicions of those corpoations felt by the developing countries are exaggerated or even wholly unfounded. But we cannot deny that those fears and suspicions exist, that they tend to color the attitude of the developing countries towards all forms of foreign private investment, and that we have in many parts of the world what amounts to a confrontation between foreign private investors and host countries.

What can be done to improve the situation?

To begin with, everything possible must be done to bring about a change in attitude on the part of both foreign investors and host countries. For foreign investors this means a recognition of the political and economic changes which I mentioned earlier, and a greater understanding of the problems and outlook of the developing nations. Foreign investors must learn to see themselves as others see them, and to be more responsive to the sensitivities of the host countries in which they are operating. For host countries it means a recognition that foreign private investors are not necessarily ogres, that they can provide badly needed capital, technology and managerial expertise, and that they are entitled to fair treatment. In sum, investors and host countries alike must accept the obvious fact that reasonable terms for the one and economic benefit for the other are not mutually exclusive but can readily go hand in hand.

Secondly, we should continue the efforts already begun -- efforts in which your organization has been deeply engaged -- to find new ways of fitting foreign private investment more comfortably into the modern world.

Encouraging developments have been the growing use of joint ventures, the establishment of bilateral investment insurance schemes and the increasing number of bilateral investment promotion and protection agreements concluded over the last decade. Also encouraging has been the growing discussion of other ways in which to bring about a new relationship between foreign private investors and host countries.

For instance, there have been suggestions that the emphasis in future foreign investment overseas should be shifted from the provision of capital to the provision of services.

The normal form of overseas investment is one in which special rights are secured in the host country which are deemed to be permanent. That tends to result in a perpetuation of foreign control over local industry. As an alternative to this traditional method of investment, it has been proposed that foreign investors should concentrate on obtaining contracts -- with payment being made in cash or kind at fixed or variable amounts -- to provide management and technology over a definite term, supplying capital as a secondary consideration and then only when it cannot be obtained locally.

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IFC spends much time in harmonizing the interests of foreign private investors and host countries. Time and again, our presence in a project has led to the smoothing of difficulties, the removal of misunderstandings and the creation of that feeling of mutual confidence between foreign investors and host countries which is so essential to a continuing flow of private foreign investment.

Any fresh ideas as to what more can be done to build up this mutual confidence are naturally of great interest to us as they are to you. I hope the discussion will continue.

But I would like to emphasize one point. Discussion restricted to the investing countries will not of itself produce mutual confidence between all those concerned with investment in the developing world. Confidence is based on understanding. And understanding can be achieved only if the discussion is broadened to include local investors in the developing countries and representatives of those countries themselves.

If we can achieve this understanding we shall have taken a long step towards establishing that mutual confidence between investors and host countries which both your association and IFC exist to promote.

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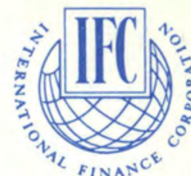

THE ROLE OF PRIVATE ENTERPRISE IN DEVELOPING COUNTRIES

Speech by

William S. Gaud

Executive Vice President

International Finance Corporation

to the

Social and Economic Council of

Skandinaviska Eskilda Banken

Stockholm

November 2, 1972

"The role of private enterprise in developing countries." That is the subject I have been invited to discuss with you. It at once raises two fundamental questions.

The first of these questions is: Does private enterprise have any role in the development process? This question is put by those in both the developed and the developing worlds who regard economic development as something to be financed only by governments through official development aid.

The second question is: Has private enterprise any future in the developing countries? This question is increasingly asked by would-be investors in the developed countries.

I will deal with these questions in turn.

Does private enterprise have any role in the development process? Strange as it may seem, this question has long been a source of controversy. At one extreme it is claimed that private investment, far from contributing to development, is actually a form of exploitation, and that development can be properly financed only by official aid. At the other extreme it is claimed that private investment should replace official aid altogether.

If we turn from theory to practice we find that this controversy is meaningless. It is not a matter of choice between official aid and private enterprise. Each is complementary to the other; each has its own specific and irreplaceable contribution to make to the development process.

An analysis of how official aid and private investment is distributed through the economies of the developing countries brings this out clearly. There is no predetermined optimum mix of official aid and private investment. The relative

importance of each depends on the circumstances of each individual country -- on the extent of its development, on its resources and on the way in which it chooses to support its development program. But, broadly speaking, official aid is mainly spent on such things as food and emergency aid, technical assistance and the building of economic and social infrastructure. Private investment is concentrated primarily on industrial projects -- manufacturing, oil and mining. There is no incompatability or duplication between the two.

There are both opinions and facts to support the view that private enterprise has a role in development. Let me first cite some opinions.

In a report he prepared in 1968 for UNCTAD Dirk Stikker, former Chairman of the OECD, wrote:

> "Private enterprise, domestic and foreign, has a very considerable contribution to make to the solution of the development problem. The efficiency and skills needed to make a reasonable profit in competitive conditions are powerful factors in ensuring that scarce resources are not wasted."

In 1969 the report of the commission headed by Lester Pearson, which assessed development assistance over 20 years, put the same point in another way. I quote:

> "There is no doubt about the contribution which private capital can render to economic development. Indeed, dollar for dollar it may be more effective than official aid, both because it is more closely linked to the management and technology which industrial ventures require, and because those who risk their own money may be expected to be particularly interested in its efficient use."

In 1970 the U. N. Commission for Africa set itself to consider how foreign private investment could help African countries. About the same time the U. N.

Commission for Asia and the Far East emphasized the role of foreign investment in accelerating the development process.

Most recently, in May of this year, a resolution of the Council of Europe Assembly noted that private investment will have an increasingly important role to play in development.

The sense of that resolution is borne out by the facts of the case. These show that official development aid is facing a major crisis. As the developed countries grow yearly richer they are falling further below the Second Development Decade target of 0.7 per cent of gross national product. From an average of 0.52 per cent in 1960 the total of official development aid funds had fallen to 0.35 per cent by 1971 -- and it looks as if it may fall even further.

The official aid programs of the 1950s and the 1960s helped the developing countries acquire an economic infrastructure -- roads, railroads, ports, power facilities and the like. Indeed, it is official aid which creates the conditions in which private investment can operate. Yet even if the flow of official aid were rising instead of falling it would still not be enough to support needed economic development in the Third World. Therefore we should be urgently discussing, not whether private enterprise has a role in developing countries, but how it can strengthen its role in those countries.

This brings me to the second question I posed at the beginning of this talk: Has private enterprise any future in the developing countries? I am convinced that it has, and for hard, practical reasons. Private enterprise can provide funds for development which are urgently needed. Equally important, private enterprise can provide industrial and business skills which are no less urgently needed in the developing countries. The governments of those countries, already overburdened with other essential risks, have neither the capital nor the expertise to develop industry.

Nevertheless, it must be admitted that the climate for private investment in many of the developing countries, and especially the climate for foreign private investment, is by no means satisfactory. It is not satisfactory to either investors or to host countries. And if we are honest, we must admit that the reasons for this situation are to be found in the developed countries no less than in the developing countries.

In the developed world, for example, there are corporations engaged in overseas operations which still look at those operations, and at the countries in which they take place, through out-of-date spectacles. They still believe in planning their operations for the exclusive benefit of their shareholders, and still operate through wholly-owned overseas subsidiaries.

Yet we are living in the 70s, not the 20s and 30s, or even the 40s and 50s. In today's world nearly half the 140 or so nation states are less than a generation old. These young countries are very conscious of their new nationhood. Other countries, politically independent for a longer period of time, are aspiring to the economic independence which they feel has so far eluded them.

These countries need to develop, but they often find that that need and their concept of political and economic independence do not always go together. Their efforts to be free of all neo-colonialist pressures, real or imaginary, are sometimes carried so far that they actually put obstacles in the way of their development.

For instance, some countries include foreign investment among those pressures. They regard some foreign investors as having exploited them in the past, rather than having contributed to their development, and so view all foreign investors with suspicion and distrust. In extreme cases these attitudes lead to expropriations, nationalizations and other assertions of national sovereignty. As often as not these situations reflect suspicion of particular investing countries or of companies thought to be associated with particular countries.

Let me pick out two aspects of foreign private investment which the developing countries often find uncongenial -- wholly-owned subsidiaries and the giant corporations now so prominent in the world investment scene.

A wholly-owned subsidiary may be a good citizen of the country in which it is located. It may be efficient, pay high wages and its fair share of taxes, and make a valuable contribution to exports. But even when it is partly or wholly staffed by local nationals, it tends to remain subject to the overall policies of its parent company rather than to those of the host country, and local investors are excluded from buying shares in it. Rightly or wrongly, the host country looks upon it as a foreign enclave in what is often an important sector of its economy.

These subsidiaries are often owned by giant corporations -- the so-called multinational corporations -- I mentioned a moment ago. The very size of those enterprises creates complications. The countries of the Third World frequently see giant foreign firms as juggernauts straddling the frontiers of several nations and preventing the growth of a local private sector, even as threatening the economic independence of each one of them. Even a juggernaut directed by enlightened and forward-looking men may seem frightening to those in its path.

Sometimes a foreign corporation is a fearsome thing not only because of its size but because of its nationality. This can be so for one of several reasons: a colonial past, geographical proximity, the fact that supplies for an investment are tied, the domination of the local investment scene by a single country or something else.

These feelings of uneasiness, suspicion and distrust act as a brake on both development and the legitimate aspirations of investors. What can be done to improve this situation?

We might begin, perhaps, with a bit of humility on both sides. Too often, in the industrialized world, the words "developing countries" are used as a synonym for "poor countries". I suggest that, instead, we think of those countries as having a rich but unfulfilled human and material potential which they need help to develop.

Another thing. We must remember that the problems for which we are seeking solutions are not our problems but the problems of the developing nations. Only they can decide how they want to solve them and in what priority. If asked, we can consult, advise or help. But we should not take over and we should not try to make their decisions for them. Patience and forbearance -- these are vital qualities in any relationship, and surely so in this one.

By the same token the developing countries should recognize that private investment from the developed countries has much to offer them which they cannot obtain elsewhere. It can bring them not only capital financing, but also advanced technology, managerial expertise and, often, established export outlets.

Foreign investors and the developing countries alike must come to realize that neither side can write the rules to suit themselves alone.

The investor, for example, must accept the fact that the host country is entitled to retain control of its economy and development, and will therefore seek to integrate foreign investment into its development plans by ensuring that it goes to areas it deems essential. He cannot expect these countries to accept a foreign investment simply because it benefits the foreign investor.

Similarly, the host country must accept as legitimate the desire of the investor that his investment be made on reasonable terms, that it be profitable and that he be adequately assured of fair treatment in the years ahead.

All this implies the need for a fundamental change in attitudes -- a change in the emotional as much as in the investment climate. But such a change can only come gradually, What can be done meanwhile?

We must do what we can where we can. Very few countries are opposed to all foreign investment. Indeed, in some parts of the developing world the climate for investment is improving, not deteriorating. Even those nations which are apprehensive about foreign investment are seeking not to eliminate or discourage such investment, but to integrate it more fully into their development programs. They want to be sure that foreign capital goes to areas which they deem essential. They want to keep the control of their economy and development in their own hands.

Much can be done within familiar investment patterns. For instance, every private investment should meet two tests: It should contribute to the development objectives of the host country, and it should also serve the interests of the investor. If host countries and investors will see to it that all private foreign investment meets these two tests, a long step will have been taken towards dispelling the suspicion and distrust with which foreign investment is viewed in some quarters.

There are other things to be done. A prime cause of the difficulties facing foreign investors in the developing countries is that these countries object not so much to foreign investment but to foreign ownership and control. We must therefore recognize that, generally speaking, the day of wholly-owned subsidiaries in the developing countries is over. Instead we must consider how ownership and control can be shared with local private enterprise.

For instance, more emphasis can be given to local participation in management and administration, to the training and employment of local personnel at the management and technical levels, and to giving local investors a voice in determining over-all corporate policy. More can also be done in terms of joint ventures.

There is something else foreign investors in the developing countries should consider. It may be that traditional forms of bilateral investment can no longer be wholly effective in filling the need for foreign investment and private enterprise in the developing countries. Foreign investment may have to become increasingly and genuinely multinational in character to be acceptable to both investors and host countries. Prejudices based on nationality can be partially or wholly overcome by associating in a single enterprise investors from several industrialized countries and investors in host countries.

This brings me to the International Finance Corporation -- IFC -- which has been active in the field of multinational investment for 16 years. IFC was set up by the World Bank in 1956 with the sole purpose of promoting private enterprise in the developing countries by bringing together foreign and local capital. We are the only international institution with that sole purpose.

I will not take up your time by describing IFC's activities in detail, for our literature is here for any of you who may want it. But I would like to conclude by pointing to some aspects of our activities which show that there is indeed a role for private enterprise in the developing countries.

As I have said, the object of IFC is to promote private enterprise in those countries. We do this by investing ourselves -- by way of long-term loans, or equity subscriptions or a combination of both -- in most types of industry in those countries. And we always insist that a project meet two basic criteria. It must be potentially profitable and it must contribute to the economic development of the country in which it is located.

Since 1956 we have ourselves invested $708 million in 188 enterprises in 49 countries -- usually in amounts between $1 million and $20 million. But we never invest alone. Our job is to supplement private capital, not to replace it. So we

always have partners. To date other investors have provided $3,085 million for the enterprises in which we have invested. Put another way, that means that for every dollar invested by IFC others have invested four dollars.

Over the whole range of IFC's investments, local capital has actually contributed more than foreign capital. Of every dollar invested in projects directly financed by us, 19 cents has come from IFC, 37 cents from foreign private investors and 44 cents -- nearly half -- from local investors.

The matter of local ownership is very important to us. So much so that IFC will not invest in any enterprise that is 100 per cent foreign-owned. We will, on the other hand, support one that is wholly locally-owned. By the same token we have frequently been able to bring about, in joint ventures, a mutually profitable partnership between foreign and local capital.

I am convinced that some local ownership is an essential element for the lasting success of any future foreign private investment. But we in IFC go further in securing local support for our operations. We do not ask for, nor will we accept, government guarantees on our investments. We always make sure, however, that an IFC investment is acceptable to the government of the country in which the project is located -- that is to say, we will do nothing inconsistent with a country's development program.

This brings me to IFC's special character in the sphere of private investment in the developing world. It is, as I have said, the only international institution which exists solely for this purpose. It is owned by the 97 member governments which are its shareholders, Sweden among them. Seventy-four of them are governments of developing countries. All those governments know us and accept our objectivity. They recognize that IFC is a professionaly competent organization which represents no special interests, has no political objectives and will promote only those

investments which are of mutual benefit to private investors and developing countries alike.

Those governments will therefore often listen to us when they will not listen to others. Because of its unique position IFC can frequently play a valuable role in creating conditions in which foreign investment can safely and profitably take place, and in harmonizing a relationship between investors and governments.

What part has Sweden played in IFC's activities? Swedish enterprises are partners with IFC in a fertilizer project and a tourist promotion company in Tunisia, a paper producer in Pakistan and in development banks in Greece, Tunisia and the Ivory Coast. Ten Swedish concerns are partners with us in SIFIDA, the investment group created to promote private enterprise in Africa. Swedish banks have also bought participations in IFC investments in cement plants in Greece, Pakistan and Thailand.

But that evidence of Sweden's connection with IFC is rather sparsely scattered over 16 years. The fact is we have not seen very much of Sweden in IFC. We would like to see more in the future. We would welcome your help in doing our part towards building that new relationship which the developed and developing worlds must share if they are to prosper together.

Meanwhile, I suggest to you that IFC and its record provide one affirmative answer, and an impressive one, to both the questions posed at the beginning of this talk. Private enterprise does have a place in economic development, and there is a future for private enterprise in the developing countries.

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THE INTERNATIONAL FINANCE CORPORATION

WHAT IT IS, WHAT IT DOES, HOW IT DOES IT

Speech by

William S. Gaud

Executive Vice President

International Finance Corporation

to a

Joint meeting of

The Swedish Federation of Industries

and

Swedish Export Council

and

Swedish Bankers' Association

Stockholm

November 3, 1972

It gives me special pleasure to be with you today in the course of my first visit to Sweden.

Anyone like myself who has been intimately involved with the problems of aid and development recognizes Sweden's interest in those related problems and the part she has played in working towards their solution. I am therefore particularly glad to have this opportunity to speak to you about the contribution the International Finance Corporation, or IFC as we call it, makes to development.

That contribution, of course, has to do with the involvement of private investment, local and foreign, in the development process.

There are some who think that development and private enterprise don't mix. In fact, they are complementary.

Official development aid during the 1950's and 1960's has helped the developing countries acquire an economic infrastructure -- the basic utilities and services which provide the foundation for any economy. Official aid will continue to do this during the 1970's.

But private enterprise also has an important part to play in the development process. For one thing, the challenge posed by development is so vast that there are not enough national and international aid funds to meet it. That means that every available dollar, pound and krona has to be harnessed to the development effort. Thus private enterprise is important because of its money contribution to development. But, equally important, it also contributes technology and efficient management, both of which are in short supply in the developing countries.

These are important considerations to the governments of the developing countries, overburdened as they are with the task of trying to obtain, in a short time

span, at least a degree of the economic sophistication the industrialized countries took more than a century to achieve.

The very existence of the World Bank is testimony to the fact that its founding fathers recognized that official aid and private enterprise both have a part to play in the development process. The first of the Bank's Articles of Agreement states that, after supporting post-war reconstruction, the Bank's purpose is:

> "To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources."

But it was soon found that the World Bank was not an all-purpose institution. It was, and is, a lending institution and not an investment institution. Furthermore, it lends only to governments or on a government guarantee. It has no power to provide venture capital, it cannot make loans for working capital, and it is not able to engage in underwritings. In short, while it is an excellent mechanism for achieving many developmental objectives, it is not well equipped to promote private investment.

It was to fill this gap that IFC was established as an affiliate of the Bank in 1956, with Sweden as a founder member, and given the specific job of furthering economic development by encouraging the growth of private enterprise in the developing countries.

IFC has now been in business for 16 years, but I am constantly surprised at how little known we are. Let me therefore tell you something about what we are, what

we do and how we do it -- although not in any great detail, for our literature is here for anyone who wants it.

First, then, what we are. IFC is owned by the 97 member countries which are its shareholders. Seventy-four of our 97 member states are less developed countries -- evidence that they feel private enterprise has a place in their future.

What resources does IFC have? First our 97 member countries have subscribed our paid up capital of $ 107 million. Next, we have accumulated earnings of about $ 73 million. Finally, we can borrow from the World Bank up to four times the sum of our capital. In other words, we can borrow $ 428 million. So in all, our resources amount to about $ 608 million.

What does IFC do? Put briefly, IFC provides money and experience to help promote or expand productive enterprises in the developing countries by itself investing in those businesses, and by securing foreign and local capital to do likewise. IFC also helps improve investment conditions in the developing countries by supporting the establishment or expansion of local capital markets, and of savings and similar institutions.

You will have gathered from what I have said that IFC is quite different from the so-called multinational corporations which bulk so large on today's foreign investment scene. In some respects one might call IFC an international business cooperative . Not only is it truly multinational in its shareholders, with each country among them in effect a part owner of every IFC investment, but IFC invests only in company with local and foreign partners.

What have we achieved so far?

Since 1956 we have invested $ 708 million in 188 enterprises in 49 developing countries. Other foreign and local investors have invested $ 3,085 million in the same enterprises, making a total investment in them of $ 3,793 million.

Most of our investments have been made in Latin America, with Asia, Africa and Europe following in that order More specifically, about 40 per cent have been made in Latin America and the Caribbean, 28 per cent in Asia, 17 per cent in Africa and the Middle East and 15 per cent in Europe -- that is, the less developed countries of Europe: Greece, Spain, Turkey and Yugoslavia.

In terms of figures, those percentages mean $ 284 million in Latin America and the Caribbean, $ 198 million in Asia, $ 118 million in Africa and the Middle East and $ 107 million in Europe.

Our investments have been mainly in manufacturing -- in construction materials, pulp and paper and textiles. We have also been active in fertilizers, iron and steel, tourism, utilities, mining, food processing, petrochemicals, and projects related to agriculture.

Besides our investments in specific industries, $ 54 million of IFC's money has gone into 25 regional and local development banks and similar institutions which are active in 19 countries.

We have made a $ 10 million loan to ADELA, which operates throughout Latin America and which has four Swedish banks and seventeen Swedish companies among its shareholders. In Africa we have made a $ 500,000 equity investment in SIFIDA, a promotional company in which ten Swedish enterprises hold shares.

Now let me turn to the ways in which we do our job.

Like any investment bank, IFC has certain basic investment policies. For example:

We do not make an investment if enough private capital is available on reasonable terms from other sources. It is our job to mobilize and supplement private capital, not to replace it.

We take great care that every investment we make should hold out the prospect of a profit and, just as important, that it should be of economic benefit to the country concerned.

Profitability is essential for two reasons. One reason is that without profitability we cannot attract the business and financial partners who, as I have said, have invested \$3,085 million with us in the projects we have supported in developing countries. The other reason is that without profitability IFC could not turn over its capital by selling its investments, thereby releasing its funds for new ventures. To date we have sold \$204 million of our investments to other investors, local and foreign.

A moment's reflection will show that there need be no conflict between the objectives of economic benefit and profitability. Indeed, they are interdependent. Any number of private business enterprises in the developing countries contribute to rising incomes and tax revenues, or to a greater export capability, or to greater employment, or to greater industrial efficiency, or to the effective use of local resources, or to the training of a needed labor force or to some other developmental objective. Those enterprises could do none of these things if they did not make a profit. They could not even survive.

We take great care to ensure that each of our investments fulfils the two conditions I have mentioned. Over the years our international staff, including some Swedish citizens, has built up a considerable body of expert knowledge -- financial, legal and technical -- on the ways and means of investing in the developing countries. We apply this expertise in an on-the-spot appraisal of every potential investment. Our object is to ensure that the project is sensibly structured and its concept and sponsorship sound; that management is capable and experienced; that the plan for financing the venture is realistic; and that a market exists for the company's products or services.

Sometimes those looking for IFC support have already made their own investigations. In those cases we are quite ready to build our own assessments on the results of their investigations. Obviously it can be wasteful to do the same work twice.

Two other points.

First, we always make sure that an IFC investment is acceptable to the government of the country in which the project is located.

Second, we do not ask for, nor will we accept, government guarantees on our investments.

Now a word about the type of investments IFC makes. There is no standard form for an IFC investment. The type of investment, the investment mix and the terms of the investment vary from case to case depending upon the risk and the prospective return. We try to be flexible in our approach, and tailor our investments to the case in hand. Our prime concern is to do whatever is necessary to get a sound project moving.

Usually our investments range between \$ 1 million and \$ 20 million in any one project. Most consist of a long-term loan combined with a share subscription. And here I may say that IFC is the only international institution which regularly makes equity investments. Sometimes we subscribe for shares only, when a loan is not needed. If equity funds are fully available from other sources but loan funds on reasonable terms are not, then IFC will make a straight loan.

IFC loans normally run for a period of seven to twelve years. After a grace period to cover construction of the project, amortization is by semi-annual payments. Interest rates depend primarily upon the state of the world's long-term money markets and on the risks involved in each project. But they are hard - commercial - not soft. We are in business to promote investment, not to subsidize it.

When we buy shares in a company we use dollars but denominate the investment in the currency of the host country and assume the resulting exchange risk. Our loans, on the other hand, are generally made in dollars and are repayable in

dollars. We are, however, prepared to make loans in other currencies, including Swedish kronor, in which case they will be payable in kronor.

Two features of IFC funds are particularly attractive to both investors and host countries. IFC can make long-term money available when it can't be found elsewhere. Also, IFC money is untied. The only requirement is that it be spent in one of the 118 countries belonging to the World Bank Group or in Switzerland. It can be used to buy equipment, to cover foreign exchange or local costs, for working capital or for any other legitimate business purpose.

How does IFC become involved in its investments? In various ways. In some cases we are asked to put up the last money for a project -- to fill a gap after the rest of the financing has already been arranged. Or an industrialist may have a project in a less developed country and ask us to assess it and, if we approve it to help him find financing for it. In such a case, by making a commitment at an early stage, IFC may make it possible to bring in other investors to complete the financing.

Sometimes we ourselves identify a promising project and seek the help of others in developing it. Or we may help in promoting a pilot company to make feasibility studies or to carry out operations on a test scale. At the moment we are doing this with a vegetable-growing project in West Africa, and in Mexico with a project designed to produce newsprint from bagasse.

Regardless of how IFC becomes involved in a project, we never invest alone. We always have partners. Our investment in any one project is normally well under 50 per cent of its total cost, and, as a rule, we provide less than 25 per cent of any share capital. We do not take part in management, nor are we represented on the boards of the enterprises in which we invest. But we do maintain a continuing interest on those enterprises by field visits and periodic consultation with management.

I say that IFC always has partners. Let me expand that statement by adding that it is our policy to encourage local ownership of the ventures in which we invest. We will not invest in any enterprise unless there is some existing local ownership or provision for it in the future. Thus we will not support any enterprise that is 100 per cent foreign-owned and continues to be so. We will, on the other hand, invest in one that is 100 per cent locally-owned.

Half the enterprises in which IFC has so far invested have been joint ventures between foreign and local investors. In a joint venture the skills and resources of the partners complement each other. The local partner provides not only capital, but knowledge of local market conditions; he can handle relations with labor and government and help arrange local currency financing. The foreign partner, besides capital, contributes industrial techniques and managerial experience.

Many people have the impression that even in joint ventures the bulk of the capital comes from foreign private investors. IFC's experience does not bear that out.

Over the whole range of IFC's investments local capital has contributed more than has foreign private capital. Of every dollar invested in projects directly financed by IFC, 19 cents were contributed by us, 37 cents by foreign private investors and 44 cents -- nearly half -- by local interests.

Besides direct investment IFC has done a number of other things to help channel domestic savings into productive private enterprise. Let me mention a few.

Sometimes local investors are willing to subscribe to shares in a local enterprise, but are only able to pay for them over a lengthy period. In such cases we have given local standby and underwriting commitments to enable financing

of an interprise to go forward without delay. Since 1962 we have committed $ 55 million in these ways.

In those countries with fairly well developed capital markets, IFC has sometimes required, as a condition of financing a project, that its sponsors offer shares to local investors if there is no existing domestic public participation. Sometimes, too, we have earmarked part of our own holding of shares for future sale to local investors, particularly where lack of a capital market has made public participation in the early stages of an enterprise difficult or impossible.

IFC is also active in helping developing countries to establish or strengthen institutions to mobilize local capital for investment. We provide that help mainly in two ways.

First, governments and private groups in the developing countries can, at their request, be helped to establish and support institutions to channel domestic savings into productive private enterprise.

Second, in countries where securities are already traded locally, IFC can advise on ways to encourage wider share ownership and to increase the choice of stock holdings available to local investors.

Our object is to propose practical ways to bring about an increase in the flow of savings into productive domestic investments. This will result in a broadening of participation by local investors in the ownership of profitable enterprises and so reduce dependence on foreign capital.

I have said enough to show you that IFC is in many respects a unique institution It represents no special interests, no political objectives. Foreign investors welcome our participation in their projects because they feel IFC provides a useful "umbrella for them in the developing countries. For their part the developing nations see IFC as a means of combining the benefits of foreign investment and

expertise with encouragement of local ownership of local industry. They also see an IFC investment as a means of avoiding too great a dependence on any one country or any one multinational corporation. If a large international corporation is an investor in an IFC project, local investors look upon IFC as a partner who can deal with such a corporation on equal terms, whereas they themselves many not be able to do so.

I hope you will agree that IFC is doing a worthwhile job in building the kind of relationship which the developed and developing worlds must share if they are to prosper together. But, as I have said, IFC is not its own master; it cannot invest unless others invest with us.

So far, to our regret, we have not been as closely involved in the overseas activities of Swedish business as we would have liked. Swedish enterprises are partners with IFC in a fertilizer project and a tourist promotion company in Tunisia, a paper producer in Pakistan and in development banks in Greece, Tunisia and the Ivory Coast. Ten Swedish concerns are fellow shareholders with us in SIFIDA, the investment group created to promote private enterprise in Africa. Swedish banks have also bought participations in IFC investments in cement plants in Greece, Pakistan and Thailand. And, as I have said, we have Swedes on our staff.

Yet, altogether, we have not seen very much of Sweden in IFC in 16 years. We would like to see more of you in the future. I am sure you could help us, and I am bold enough to think we could help you.

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FOREIGN INVESTMENT IN THE PACIFIC BASIN

THE NEED FOR FORWARD THINKING

Speech by

William S. Gaud

Executive Vice President

International Finance Corporation

to the

U.S. National Committee

of the

Pacific Basin Economic Council

Washington, D.C.

February 8, 1973

I am very grateful for this opportunity to participate in your proceedings. Your institution, the Pacific Basin Economic Council, and the institution which I represent, the International Finance Corporation, have much in common.

To begin with, we have the same ultimate objective -- to promote economic and social progress. Also, we both believe that private investment can play an important role in helping to achieve that objective. We are also convinced, both of us, that the best way to improve the investment climate in the developing countries, and to bring about a more favorable attitude towards private enterprise, is to work through multilateral channels, thereby eliminating the political and other frictions that so often characterize bilateral relationships.

I hesitate to say very much to this group about the investment scene in the Pacific Basin. You are specialists in that area, whereas IFC -- even though it has made many investments there and expects to continue active in the area -- operates throughout the so-called Third World and cannot claim your degree of regional expertise.

Nevertheless, it seems to me that the prospects for private investment in the developing countries of the Pacific Basin are relatively good -- and there would of course be no question about that if you could get prompt and whole-hearted acceptance of the basic principles laid down in your Pacific Basin Charter on International Investments.

In the countries of the Pacific Basin there is an abundance of labor and -- again speaking relatively -- the labor force is adaptable and literate. In most of these countries there are local entrepreneurs with capital, sometimes substantial capital. Most important, the countries in the Pacific Basin look to private enterprise to contribute to their development, and are receptive to foreign capital and new technology.

Except for a period in Indonesia, nationalization and expropriation have not so far been significant features of the investment landscape in this part of the world. In fact, the developing countries of the Pacific Basin have been less restrictive of foreign investment and the remittance of profits overseas than have many developing countries in other areas.

These are all prime ingredients of a situation which might be described as ready-made for the limitless expansion of private enterprise, domestic and foreign. The fact that the developing countries of the Pacific Basin are experiencing a great upsurge in economic growth would seem to support that view. Thailand, Taiwan, Malaysia and Singapore all have economic growth rates ranging from 7 to 15 per cent in real terms. The Philippines, despite their recent troubles, were able to achieve a 6.5 per cent growth rate in 1971.

Yet it is too much to expect that these countries will escape the problems besetting private enterprise and foreign investment in other parts of the developing world.

The Third World is influenced today by a number of developments which have had a substantial impact on the climate for foreign investment. One is the increasingly international character of business, as manifested by the growth of multinational corporations. Another is the transformation of many ex-colonial areas into new nations -- proud, sensitive and sometimes insecure. Still another is the vastly increased pace of technological advance and the consequent increased wealth of the industrialized countries.

The combined effect of these developments is obvious. They have broadened and deepened the gulf dividing the developed and the developing worlds, and have made more abrasive their emotional and material relationships.

They also lead many representatives of developing countries to underemphasize the benefits that accrue from foreign investment. Too often they think of foreign investment only in terms of money. Much is heard, for example, of the so-called negative effect of a foreign investment on a host country's balance of payments because of the outflow of dividends. Too little is said about the technology and management skills an investment brings with it; of the marketing opportunities that it opens up; of the employment, domestic purchasing power and local tax revenue it creates; and of the contribution it makes in the shape of exports or import substitution to that same balance of payments.

A failure to take these factors into account can lead to serious misunderstandings. One example is the increasing friction arising between foreign investors and developing countries over the degree of foreign ownership

and control that is considered acceptable by host countries. The problem is not peculiar to developing countries, as you well know. But in any case, the developing countries of the Pacific Basin are no less anxious than other developing countries to control their own economic destinies, and to utilize their natural resources to the best advantage of their own peoples -- as they see those advantages, not as others may see them.

They are in a strong position to do so. Consider the extent of their resources -- an abundance of cheap labor, precious metals, copper, tin, rubber, petroleum, hard woods, rich soil and ample water for power and irrigation. Indonesia alone contains almost every natural resource of any economic consequence.

The industrial nations cannot do without these resources. But they can no longer assume that they will be available only, or primarily, on their terms. The owners of the resources have their own ideas as to how they should be used, and they mean to have their way.

So one must be prepared for the situation in the Pacific Basin to change. How should foreign investors prepare themselves for that change -- or, better still, what can they do to influence the tempo, the scope, the nature of the change, so that it will do two things: on the one hand, not be destructive of the legitimate interests of investors, and on the other be consistent with the development needs of the host countries?

It will certainly not do to try to make hay while the sun shines on a situation unusually favorable to foreign investors. This would only

precipitate change, probably in unwelcome forms. Rather, foreign investors should make every effort to structure, or re-structure, their activities along lines that take proper account of local conditions and aspirations. In that way they may be able not only to influence the pace and shape of change, but also to avert an eventual clash between themselves and host countries.

An investing corporation should recognize that its interests do not necessarily coincide at all points with those of the host country. For instance, the corporation may see its investment in an international setting, whereas the host country will see it in a strictly national context. Given the country's willingness to treat it fairly, the corporation should therefore accept the fact that a host country's need to maintain or create employment, or other economic planning considerations, may dictate the nature and location of a project.

One of the most difficult problems facing the developing world is over-population. Unemployment and under-employment are endemic. And, as you can see from the figures contained in the paper prepared for this meeting on the Proposed Action Program for PBEC, the situation is not about to be cured. Obviously, anything that foreign investors can do to maximize employment without sacrificing efficiency and profits, they should certainly do.

The employment problem is closely related to the problem of technology. Modern technology is the product of the experience and needs of the

industrialized countries, which are generally looking for ways to save labor rather than to maximize its use. The consequence is that technology that is suitable for a developed country may be quite unsuitable when it is transplanted to a developing country -- where a labor intensive operation may actually be cheaper, as well as socially more desirable, than a capital intensive operation.

How often do we think of this -- any of us? How much effort have we devoted to devising technologies and methods of operation which meet the requirements of this other world that is so different from our own?

Some progress has been made in adaptive technology, yes, both in the Pacific Basin and elsewhere. As you probably know, one or two firms have developed small-scale, labor intensive production methods for use in Indonesia. There are also the so-called Southeast Asia cars planned by two U.S. automobile manufacturers to sell at about one-third the cost of their American counterparts. But much more needs to be done in the way of local research and development if we are to meet the needs of the developing countries for ideas and methods of doing business that will help them solve their ever-present people problem.

Above all, as I said a moment ago, there is the question of the ownership and control of enterprises located in developing countries. Many multinational corporations are still wedded to the idea of carrying on their overseas operations through wholly-owned subsidiaries. Even today, certain U.S. corporations are buying out local minority shareholders and converting their foreign subsidiaries into wholly-owned enterprises.

Some say this is the most efficient and expeditious way to do business. Maybe so. But it ignores the realities of life in the 1970s. An increasing number of host countries resent that kind of arrangement, and see it as confirming their view that multinational corporations plan -- and carry on -- their overseas activities without regard to the interests of the countries in which they operate.

Exaggerated or not, that view is spreading. It is a view foreign investors will have to learn to live with. To meet it they must be ready to admit the nationals of host countries, and sometimes even their governments, to a share in the ownership and control of their overseas projects.

Some multinational corporations recognized long ago the importance of the questions I have raised, and have acted accordingly. Others are planning to do so.

This is particularly the case in Japan. The Japanese are already large investors in the developing countries of the Pacific Basin, and they will become larger. The lifestyle of Japanese investors in those countries will thus be an increasingly important influence on the future climate for foreign investment as a whole.

It is interesting to note, therefore, that many new patterns for overseas investment are currently being discussed in Japan. It is too soon to be sure where the Japanese will end up, but they are certainly placing more and more emphasis on local participation, and local ownership, in their own overseas investments.

The Charter of P.B.E.C. leaves no doubt of where your organization stands on this important issue of local ownership.

IFC's position is also clear, and is the same as yours. The promotion of more widely shared investment and ownership is one of our basic objectives. We will invest in no enterprise unless there is immediate or early provision for some degree of local ownership, and about half the 190 projects we have have helped finance have been joint ventures.

I believe -- and I trust you agree -- that the suggestions I have put forward for improving relations between foreign investors and host countries are in full accord with the sense of the PBEC Charter. I would like to mention one other proposition, which is also consistent with the principles and purposes of PBEC as I understand them.

Increasingly, in these days of rising economic tensions, a bilateral relationship between a single foreign corporation and a host country puts the foreign corporation in an exposed and risky position. This is where a multilateral organization like IFC may be able to help.

IFC is in some ways a unique organization. It is owned by 98 countries, over 70 of them developing countries. It represents no special interests, has no political objectives and was created for a single purpose: to promote investments which are of mutual benefit to private investors and developing countries alike. It does this by investing in equities and making long-term loans in conjunction with other investors -- foreign, local

or both as the case may be. Since our formation in 1956, we have invested well over $700 million of our own funds in enterprises in the developing countries in which others have invested over $3 billion. In other words, our partners have invested $4 for every dollar we have invested.

In the developing countries of the Pacific we have invested nearly $140 million in 27 projects in Korea, Indonesia, Malaysia, the Philippines, Taiwan and Thailand. Other investors have put about $800 million into the same enterprises. These enterprises cover a wide field -- cement, steel, nickel mining, power and utilities, paper, textiles, development financing, and so forth.

We have frequently found that our participation in a project provides a balancing factor between the interests of foreign investors and host countries. Our presence contributes to the smoothing of difficulties, the removal of misunderstandings and the creation of mutual confidence between the parties to the enterprise.

Because its member governments recognize its objectivity and even-handedness, IFC may be a desirable partner when one is setting up a new enterprise in a developing country. This is especially so in the case of, say, mining ventures or other enterprises with a high degree of visibility. An IFC participation is also one way -- though not the only way -- of making life easier for a foreign corporation which is unpopular in a particular country because of its nationality.

Unlike IFC, PBEC does not make its own investments. But, as a multinational institution representing forward-looking business corporations operating in the developing nations of the Pacific Basin, it can do a great deal to improve the investment climate.

PBEC has two distinct advantages. It is not an outsider -- its members are natives of the region with which it is concerned -- and it is multilateral. It can therefore involve itself with the problems of the region without being looked upon as representing the special interests of any single nation.

I am enthusiastic about the way the PBEC is approaching the investment problems of the region. The Pacific Basin Charter on International Investments is an excellent statement of principles. I applaud you for formulating it, for adopting it, and -- above all -- for using it as the basis for a dialogue with the developing nations of the region. A continuing dialogue is the only effective way of building and maintaining mutual confidence between investors and the developing countries.

I also read with great interest this morning the paper setting forth a proposed PBEC Action Program designed to assist medium- and small-sized businesses in the area. As that paper says, large businesses generally manage to take care of themselves. It is the others who need help. Also, in the long run it is they that will do the most to build a strong indigenous private sector and thereby improve the entire investment climate.

I wish you every success in your endeavors.

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THE ROLE OF PRIVATE ENTERPRISE IN DEVELOPMENT

Speech by

William S. Gaud
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to

The International Management and Development Institute Conference

Washington, D. C.

February 8, 1973

The role of private enterprise in development. That is the subject I have been invited to discuss with you today.

Some of you may think that is a non-subject. You may feel it to be self-evident that private enterprise has a role to play in development. After all, in the developed countries -- and the United States is a prime example of this -- risk capital has historically been the major financial base for economic growth.

Nevertheless, the role of private enterprise in development is far from being a non-subject -- because the question is being widely raised whether private enterprise has any role at all to play in development.

In the developed countries there is a sizable body of opinion which holds that economic development is a matter to be dealt with only by governments through official aid programs. One or two of these countries go further; they believe that economic development can be achieved only through socialism.

Those who think this way somehow feel that private enterprise is not a very respectable agent for economic development. They assert that foreign investors are too much concerned with their own policies and objectives, and too little concerned with those of the host countries, and that any benefits private investment may bring with it are more than cancelled by its social and economic costs.

Many developing countries tend to share those views, although by no means all of them express them officially. But, whether they do or not, the attitude of the developing countries to foreign private enterprise frequently has strong emotional overtones.

The explanation of this is simple enough. Many of the developing countries are young -- less than a generation old. They are very conscious of their new nationhood. Others of them -- some Latin American nations, for example -- though they have been politically independent for a longer period of time, are aspiring to the economic independence which they feel has so far eluded them.

All the developing countries are eager to be free of neo-colonialist pressures, real or imaginary. Some of them include foreign investment among those pressures. Perhaps over-influenced by memories of banana republics and the like, they regard some foreign investors as having exploited them in the past, and so view all foreign investors with suspicion and distrust.

In some cases these attitudes lead to expropriations, nationalizations and other extreme assertions of national sovereignty. As often as not these situations reflect suspicion of particular investing countries, or of companies associated with particular countries.

If we are to convince these doubters and critics, we must answer three basic questions. First, has private enterprise any role in development? Second, if so what is that role? Third, how should that role be played?

First, then, has private enterprise any role in development? In a report prepared in 1968 for UNCTAD Dirk Stikker, former Chairman of the OECD, wrote:

> "Private enterprise, domestic and foreign, has a very considerable contribution to make to the solution of the development problem. The efficiency and skills needed to make a reasonable profit in competitive conditions are powerful factors in ensuring that scarce resources are not wasted."

In 1969 the report of the commission headed by Lester Pearson, which assessed development assistance over 20 years, put the same point in another way. I quote:

> "Dollar for dollar (private enterprise) may be more effective than official aid, both because it is more closely linked to the management and technology which industrial ventures require, and because those who risk their own money may be expected to be particularly interested in its efficient use."

In May of last year, a resolution of the Council of Europe Assembly stated that private investment will have an increasingly important role to play in development.

Yes, you may say, but those opinions are from the developed countries. What about the views of the developing countries?

Those views have been reflected in the activities of U.N. bodies in which the developing countries are well represented. In 1970 the U. N.

Commission for Africa set itself to consider how foreign private investment could help African countries. About the same time the U. N. Commission for Asia and the Far East emphasized the role of foreign investment in accelerating the development process.

There is another point I might mention in this connection. In 1956 the International Finance Corporation was organized for the purpose of promoting private enterprise in the developing countries. Today, more than 70 developing countries are among its 98 members. They have contributed to our capital, they support our activities and they seek our help in strengthening their private sectors.

Plainly, a great many of the developing countries do believe that private enterprise has a part to play in their development. And for good reason.

Bear in mind, for example, that in 1968 the United Nations described the situation in the field of development financing as one of potential crisis. It saw clear signs that the gross flow of official aid from the developed to the less developed countries was becoming sluggish.

That pessimism has been borne out by what has happened since. Today, official development aid is facing a major crisis. As the developed countries grow richer year by year, they are falling further below the Second Development Decade target of 0.7 per cent of gross national product. From an average of 0.52 per cent in 1960 the total of official development aid funds had fallen to 0.35 per cent by 1971 -- and it looks as if it may fall even further.

What do these figures mean? They mean that official aid funds are not enough, and will not be enough, to meet the challenge of development. If that challenge is to be met, private enterprise and private investment are urgently needed. And, I am glad to say, while official aid flows have been falling, the flows of private direct investment to the developing countries have been rising steadily -- in 1971 they were more than $4 billion.

Another thing. Apart from the fact that there is not enough official aid to do the job, the countries of the Third World would be exceedingly ill-advised to leave to their governments the job of developing their industries. Those governments are already overburdened with other essential tasks which only governments can perform. They have neither the financial resources, the management talent nor the trained manpower to set up and run efficient business enterprises.

If then, private enterprise has a role in development, what is that role? It is complementary to the role played by official aid. Broadly speaking, official aid goes to provide food and emergency aid, technical assistance, and, above all, to the building of an economic infrastructure -- roads, railroads, ports, power facilities and the like. Private investment and private enterprise, on the other hand, are concentrated primarily on industrial projects -- manufacturing, oil and mining.

It is worth taking a moment to look more specifically at where these private funds have gone. A large part has been committed to the petroleum industry, which accounts for around 40 per cent of all foreign private investment in developing countries. Some has gone to mining, particularly copper, in

Africa, the Middle East and Asia. There are also major bauxite projects in Latin America, the Caribbean and Africa, nickel mines in the Caribbean and in Asia, and uranium projects in Africa.

Foreign capital is also going into manufacturing -- into major industries like chemicals,petrochemicals and automobiles, as well as into synthetic fibers, steel, pulp and paper. And into many smaller industries -- textile mills in Africa, tire plants in Africa and Asia, and fertilizer projects in the Middle and Far East. And, last but not least, foreign investment in tourism has made a substantial contribution to development in many parts of the developing world.

Let us not forget, too, that foreign investment does much more than simply provide capital. Each such investment opens up new sources of wealth and employment; brings with it technology, management and industrial and business training; creates or increases sources of local income and fiscal revenue; and often opens up foreign markets to which the developing country would otherwise have no access, thereby substantially improving its balance of payments. These various benefits are all too often ignored by those who argue that the financial costs of foreign investment to the host country are greater than the financial benefit.

I come now to the last of my three questions. If private enterprise has a role in development, how should it play that role? Of all questions this is the most difficult to answer. It is difficult because it involves a whole host of intangibles that affect the current climate for private investment in the developing world.

Despite the large flow of private investment in recent years, that climate, and especially the climate for foreign private investment, is by no means satisfactory and is becoming less so. It is not satisfactory to either investors or to host countries. And if we are honest, we must admit that the reasons for this are to be found in the developed countries no less than in the developing countries.

It is obvious, of course, that no businessman is going to invest overseas, and especially in the developing countries, without the expectation of making a profit. We in IFC would not consider supporting any project unless it showed a prospect of making a reasonable profit. But, in the world of today, any foreign investment should also contribute to the economic development of the host country.

In the developed world there are forward-looking corporations which shape their policies to meet both these conditions. But there are other corporations which still look at their overseas operations, and at the countries in which they take place, through out-of-date spectacles. They still operate through wholly-owned subsidiaries, and still plan their investments and carry out their activities with little or no regard for local interests.

This is unfortunate, because it is this sort of behavior which fuels the criticism of private enterprise and worsens the investment climate.

Of course, not all foreign investors follow such policies. Yet it is fair to say that too many foreign corporations are insensitive to the aims and ambitions of the countries of the Third World. They tend to regard those

countries as irrational, inferior and not worthy of being dealt with as sovereign powers. Impatience rather than understanding too often characterizes the attitude of a foreign corporation to a developing country.

For their part, many of the developing countries tend to view the foreign investor with suspicion and distrust.

There are two features of the contemporary foreign investment scene which those countries find especially uncongenial. One is a wholly-owned subsidiary, the other is a large multinational corporation. Both are frequently looked upon as threatening the political or economic independence cherished so dearly by these sensitive -- indeed, sometimes oversensitive -- nations.

A wholly-owned subsidiary may be a good citizen of the country in which it is located. It may be efficient, pay high wages and its fair share of taxes, and make a valuable contribution to exports. But even when it is partly or wholly staffed by local nationals, local investors are excluded from buying shares in it. Thus the host country naturally looks upon it as a foreign enclave in what is often an important sector of the national economy -- as marching with similar subsidiaries elsewhere, to the beat of a single drum sounded from the headquearters of a multinational coporation many thousands of miles away.

The wholly-owned subsidiary is often a part of the larger problem represented by the multinational corporation. The very size of such a corporation creates complications. The countries of the Third World frequently see giant foreign firms as juggernauts straddling the frontiers of several nations and preventing the growth of a local private sector, even as threatening the

economic independence of each one of them. Even a juggernaut directed by men who consider themselves enlightened and forward looking may seem frightening to those in its path.

Sometimes a foreign corporation is a fearsome thing not only because of its size but because of its nationality. This can be due to a colonial past, geographical proximity, the domination of the local investment scene by a single country or to some other cause.

What does all this malaise and lack of understanding add up to? There are those who fear that foreign investors and developing countries are on a collision course, and that a collision cannot be long delayed. I do not agree. It is true that a lot of dirty wheather has blown up, and that more will come if foreign investors and developing countries do not change their ways. But there is much that can be done to improve the situation.

We can start from the fact that there is a basic community of interest between foreign investors and the developing countries. The investors have money to invest and the Third World needs foreign private capital. On that basis it should surely be possible for both sides to work out mutually acceptable ways of cooperating within existing investment forms.

For example, a foreign corporation could take more account of a host country's economic priorities and draw up its investment plans accordingly. More emphasis can be given to local participation in management and administration, to expanded training and employment of local personnel.

In particular, every effort should be made to give local investors a share in ownership and a voice in determining policy - perhaps through joint ventures.

This last point is highly important. Much -- if not most -- of the bad feeling now current between foreign investors and the developing countries derives from the resentment felt by those countries that they are excluded from a significant share in the ownership and control of foreign enterprises within their borders. They don't object -- most of them -- to foreign investment. What they object to is foreign control, whether political or economic.

Specifically, that means that wholly-owned subsidiaries have no place in the modern overseas investment scene. Some foreign investors will not take kindly to that idea. But if they are not prepared to yield to local interests a significant measure of ownership and control, I frankly feel they will be better off at home. For in my judgment absentee landlordism in industry has had its day.

A change in attitudes is needed in the developing countries also. Given their needs, those countries should realize more clearly the benefits foreign investment can bring. And if they are to attract that investment, they must be more discriminating in their policies towards foreign investors. They must realize that not all foreign corporations are ogres. They must also realize that investment and its benefits will only be forthcoming if the investor can make his investment on reasonable terms and can be assured of fair treatment in the future.

There are some who feel that we must do more than simply try to change the attitudes of investors and host countries. The International Chamber of Commerce, for example, has produced a draft code to regulate relations between foreign investors and host countries. Some others have suggested that global corporations should become denationalized, or internationalized, and that they should operate under an International Companies Law established by multilater al treaty and administered by a body made up of representatives from signatory countries.

Any and all ideas designed to improve the climate for foreign investment should be welcomed. But these two suggestions, if not Utopian, will at the very least be a long time in coming -- and we can't wait for perfect solutions. We must find more immediate ways to get rid of that feeling of "them and us" that now characterizes the relations between investors and host countries.

My own view is that we should concentrate less on international controls and more on international cooperation. Specifically, we should do all we can t persuade the two sides to discuss their problems together, to seek mutually satisfactory solutions to those problems, and to devise practical ways to work together and achieve their respective objectives.

IFC itself is a significant example of what can be accomplished through international cooperation and mutual good will. As I said a moment ago, IFC is an institution jointly created and jointly owned by developed and developing countries. It represents no special interests, has no political objectives and has a single purpose: to promote investments which are of mutual benefit to private investors and developing countries alike.

I do not propose to discuss IFC's operations in any detail. IFC's General Counsel, Mr. Richards, will be doing that later this afternoon. I do, however, wish to emphasize one of IFC's most important features.

Because of its unique position -- standing as it does midway between the developed and the developing worlds and dealing even-handedly with them both -- IFC is often a desirable partner when one is seeking to set up a new enterprise in a developing country. The governments of the developing countries know us and accept our objectivity. They will often listen to us when they will not listen to others. Time and again our presence in a project has led to the smoothing of difficulties, the removal of misunderstandings and the obtaining of investment terms and conditions satisfactory to all parties.

IFC's acceptability derives not only from the fact that it is an impartial international - or multinational - corporation, but also from its investment policies. Throughout its 16 years of existence, IFC has followed one guiding principle, namely, that no project is worthy of its support unless it serves the interests of both the private investor and the country in which the investment is made.

Since 1956 IFC has invested some $700 million in the developing countries. Other investors, local and foreign, have invested more than $3 billion in the same enterprises. That record is a practical demonstration of the fact that it is possible, on a basis of international partnership, to create the community of interest and mutual ocnfidence between foreign investors and host countries that are essential to a continuing flow of private investment from the developed to the developing world.

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William S. Gaud

Executive Vice President

International Finance Corporation

IFC Luncheon Speech

Nairobi, Kenya

September 26, 1973

IFC LUNCHEON
Nairobi, Kenya
September 26, 1973

My colleagues in IFC and I once again warmly welcome you to this annual luncheon. This is the first time that this luncheon, which by its nature is something of a movable feast, has taken place in Africa. So we have a more than usually interesting setting in which to greet old friends and make new ones.

Those of you who have been our guests in previous years know that I do not, on this occasion, dilate on IFC's performance during the preceding fiscal year. That story is told in detail in our Annual Report.

Last year's luncheon took place at a time of great uncertainty on the international monetary scene. I said then that it was far from clear what the effects of that uncertainty would be on the flow of funds from the developed to the developing countries -- particularly the flow of private capital.

This year, once again, we meet in an atmosphere of great uncertainty on the international monetary scene. But we know today something that

we did not know a year ago. Namely, that the flow of private capital to the developing countries has continued at a level comparable to that of recent years.

OECD estimates show that in 1972 the flow of resources from the developed to the developing world was in dollar terms approximately the same as it had been in 1971.

In the same twelve month period the level of IFC's activity has increased. In FY 1973, we supported 28 projects in 18 developing countries with a total commitment of just under $147 million - a record figure. Concurrently with IFC, other investors put $274 million into the same enterprises. Leaving aside the local capital involved in these enterprises, we estimate that IFC and its partners provided about 12% of the total flow of foreign direct investment outside of the petroleum sector.

The gross total of IFC's investments since 1956 now stands at just under $850 million, 70% of which has been committed in the last five years. If I add that, alongside IFC, other investors have put $3.4 billion into the same enterprises, I believe I will have said enough to show that IFC is keeping pace with the rise in the general flow of private capital to the developing countries. In fact, IFC

is increasing its share of an increasing market.

Let me make one more general comment on private capital flows to the developing nations. The OECD figures referred to above take no account of borbowings in the Euro-currency market and one of the most striking features of the past year has been the increased recourse to the Euro-currency market by the developing countries and by financial institutions and business enterprises in those countries. Some estimates have placed the amount of this borrowing at US$ 7 to US$ 8 billion in 1972 -- much the highest ever.

We in IFC have some questions about these operations in the Euro-currency market, most of which have been contracted on a floating rate. To mention only two such questions, is this type of financing suitable for the developing countries, and are the lenders of these very large sums of money following lending standards that are adequate for their own protection?

This is neither the time nor the place to debate those questions, important as they are. My only purpose in referring to this explosion in Euro-currency borrowing by the developing world is to emphasize one point, namely, that taking everything together there is today a far greater flow

of private funds into the developing countries than there has been at any time in the past.

Even so, that happy day has not yet arrived when there will be no shortage of private capital for investment in the developing countries, when the climate for private investment in those countries will leave nothing to be desired and when host governments and foreign investors will fall on each other's necks like long-lost brothers and each try to out-do the other in reconciling and adjusting their differing points of view.

So there is still a need -- perhaps a greater need than ever -- for an international institution like IFC. IFC can and does appraise projects on a professional basis. It provides long-term money at fixed rates of interest. It brings to an investment transaction an unbiased, non-political and objective viewpoint and its support of a project may create a feeling of confidence on the part of other investors -- as well as the host government -- that would otherwise be lacking.

As we meet in this impressive capital of a leading African state I would like to conclude with some remarks specifically related to IFC's role in

Africa. For nowhere are these aspects of IFC's role more valid than in ventures in Africa.

Of IFC's 98 member countries some 75 are developing countries, and of these 26 -- just over one-third -- are African countries. Two of those countries, the Arab Republic of Egypt and Ethiopia, were among our 32 original member states. The great majority of our African members, however, did not achieve independence until after 1956, and were therefore not in a position to join IFC, and did not join it until sometime in the 1960s. Thus, through no fault of their own, most of our African members came late to IFC, and it was not until the early sixties that we first started to help private enterprises in Africa.

I realize that "Africa" comprises a variety of different ethnic, political and economic entities. But there are certain characteristics of investment which are common to a great many of the African countries.

It is not easy to develop ventures in Africa. In terms of manufacturing and distribution, there are not many countries with markets adequate to support plants of economic size. In many countries there is still a lack of domestic capital, no

established entrepreneurial class and little skilled labor. And, in some countries, there is an uneasy relationship between the government and the private sector.

But if, in some parts of Africa, the opportunities for private investment are not as apparent as in other parts of the world, it does not follow that such opportunities do not exist. Africa needs technology, management skills, capital and better access to world markets to raise its standards of living. I am one who strongly believes that everything cannot and should not be done by governments. Africa needs the private businessman, the private industrialist and the private banker -- domestic and foreign. I believe that the countries of Africa have the will to improve their societies and that they are practical-minded enough to work with private interests provided -- and the importance of this cannot be exaggerated -- provided the foreign investor recognizes that his investment must serve not only his own interests but also the interests of the host country.

The lesson for all of us -- certainly for an institution such as IFC -- is that we must learn how to do more in Africa than we have done in

the past. This we in IFC are determined to do. We are not yet sure what this will entail or how best to go about it. We are convinced, however, that if we are to be successful we must devote more time, more effort and more imagination to project promotion. With this in mind, we have recently established an Office of Investment Promotion which will concentrate much of its efforts on Africa. We will start with a few countries and then, as our experience and resources increase, extend our efforts to other African countries.

In FY 1973 IFC invested in seven business enterprises in Africa -- more than in any previous year in our history. I hope it will not be long before we will look back on this as only the beginning of a much larger effort.

Let me conclude by thanking you for joining us here today. We look forward to seeing you a year from now in Washington -- if not sooner, for our doors are always open to our friends, old and new.

Summary of Mr. Gaud's speech -

FOR IMMEDIATE RELEASE

INTERNATIONAL FINANCE CORPORATION

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Wednesday, November 7, 1973

Local Partnership Held Key to Foreign Investment in Developing Countries

Local partnership is fundamental to the future of private foreign investment, especially in the developing countries, a London conference on the European Community and the Third World was told today (November 7).

This view was stated by William S. Gaud, Executive Vice President of the International Finance Corporation, the World Bank affiliate that invests in private enterprise projects in developing countries. His remarks were made at the first afternoon session of the two-day conference being sponsored by the Financial Times.

The future of foreign investment, Mr. Gaud said, "must be based on a close and effective partnership between foreign investors and local interests." He said that the developing countries need capital, technology and various kinds of expertise available only from industrialized countries, while the latter need raw materials, markets and, in some cases, production on more competitive terms.

"If both of them would only realize it," he said, "there is clearly a community of interest between developing countries and foreign investors on which they can build to their mutual advantage and benefit."

Partnership can take many forms, Mr. Gaud said, but no single pattern of investment will fit all developing countries because their needs, capacities, objectives and points of view vary widely. But whatever form, he added, "it is essential that it is not a token partnership undertaken for appearance or to gain entry into the country, but that it be a genuine partnership."

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There are a number of arguments made against local partnership and there may be some substance to them, Mr. Gaud said, but they all ignore one overriding fact: namely, that the days of absolute foreign ownership and control are past.

He also commented on the developing countries' increased borrowings on the Euro-currency markets -- some estimates placing the amount in 1972 at $7 to $8 billion or higher.

"The Euro-currency market has played an important part in giving the developing countries access to the international capital market to an extent previously impossible since the end of World War II," Mr. Gaud said. "I also recognize that it has permitted a transfer of resources to those countries that would not have been possible without it. Nevertheless I see very real risks for the developing countries in borrowing so heavily in a market with no established lending standards and no overall surveillance to prevent unsound practices."

Among the risks he cited were:

The Euro-currency market is, by its nature, very delicately poised and sensitive to speculation and to changes in policies of capital-exporting countries;

Floating interest rates constitute too volatile a base on which to finance long-term industrial and infrastructure projects in the developing countries; and

The fact that Euro-currency loans do not bring with them the technology management, training and access to foreign markets which are so important to the developing countries.

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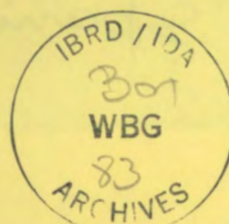
PRIVATE INVESTMENT AND LOCAL PARTNERSHIP

Speech by
William S. Gaud
Executive Vice President
International Finance Corporation
at a conference on
"The European Community and the Third World"
organized by the Financial Times

London
November 7, 1973

IFC

English



French

L'ASSOCIATION DE L'INVESTISSEMENT PRIVE ETRANGER ET DES ENTREPRISES NATIONALES

Discours prononcé par
William S. Gaud
Vice-Président exécutif de la
Société Financière Internationale
à l'occasion de la Conférence sur
"La Communauté européenne et le tiers monde"
organisée par The Financial Times

Londres
7 novembre 1973

SFI

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Mr. Chairman, Ladies and Gentlemen. I am honored by your invitation to speak to you today on Private Investment and Local Partnership. I believe that local partnership is fundamental to the future success of private foreign investment, especially in the developing countries.

Before I explain why I say that let me make a few general comments on the present foreign investment scene as it relates to the developing countries.

Nearly all those countries have two outstanding characteristics. One is a determination to modernize—to achieve their development objectives. The other is a need for capital to support their efforts—a need that can only be filled by the industrialized countries.

In the future as in the past much of this needed capital will come from private sources. Two years ago, when the post-1945 world monetary system began to be affected by changes which have since become kaleidoscopic, there were many who

thought that the flow of private capital to the developing countries would slow down. There is still great uncertainty on the international monetary scene, but at least we know that thus far the flow of private capital to the developing countries has not diminished. OECD estimates show that in 1972 the flow of those resources was, in dollar terms, much the same as it had been in 1971. And there are no signs that it is decreasing in 1973.

Euro-currency Lending

The extent to which the developing countries are dependent upon private funds from the industrialized world has been strikingly reflected in the rapidly increasing borrowing of those countries in the Euro-currency market. More than 40% of all publicly announced Euro-currency loans from private sources went to developing countries in 1972 compared with only 10% in 1970. Some estimates have placed the amount of that borrowing in 1972 at $7 to $8 thousand million or higher—and all the indications are that it has continued to rise in 1973.

There are those who have welcomed this growing recourse to the private capital market by the developing countries as a desirable trend. It is said to represent a return to a traditional method of financing economic expansion, leaving the borrowing country free to make its own decisions on how the funds should be used.

I recognize that the Euro-currency market has played an important part in giving the developing countries access to the international capital market to an extent previously impossible since the end of World War II. I also recognize that it has permitted a transfer of resources to those countries that would not have been possible without it.

Nevertheless, I see very real risks for the developing countries in borrowing so heavily in a market with no established lending standards and no overall surveillance to prevent unsound practices. I saw one banker quoted recently as saying that "a lot of banks are doing things internationally that they would not dream of doing domestically. I'm afraid that what has developed is a dual credit standard, one domestic and one international." Another banker has spoken of the "rapidly deteriorating situation in international credit standards."

There is also the fact that the Euro-currency market is, by its nature, delicately poised and very sensitive both to speculative monetary investments and to changes in the economic and financial policies of the capital-exporting countries. This poses a danger to the developing countries, as Mr. Johannes Witteveen, the new Managing Director of the International Monetary Fund, pointed out when he said the other day:

> "A reduction in the availability of funds in this market would complicate the management of external indebtedness for those countries which had allowed themselves to become overly dependent on this source of finance."

Another basic uncertainty inherent in Euro-currency funds stems from floating interest rates on which those funds are generally made available to the developing countries. These constitute too volatile a base on which to finance long-term industrial and infrastructure projects.

There is another feature of these Euro-currency loans which should not be overlooked. Foreign private investment is important to the developing countries not only because it contributes capital for their development but because it brings with it technology, management, training and access to foreign markets—items which are all in short supply in the Third World. Euro-currency loans bring with them none of these. Indeed, they are often made even without any appraisal of the soundness of the projects they are intended to finance.

Speaking to the U.N. General Assembly the other day Sir Alec Douglas-Home said: "The key word for the future of economic development is

partnership." But there is no partnership between lenders and borrowers in the Euro-currency market—not only because lenders and borrowers are inevitably remote from each other, but because the lenders have no direct involvement in the enterprise in which their funds are ultimately invested.

I believe a greater effort needs to be made to supplement Euro-currency funds for the developing countries with other, long-term funds. That brings me to private foreign investment.

In the past relations between foreign investors and host countries have often been as remote as those between lenders and borrowers in the Euro-currency market. In some cases they still are, with no element of partnership in them. In my view that kind of situation is out of date. The future of foreign private investment must be based on a close and effective partnership between foreign investors and local interests.

There are some investors in the industrialized countries who find such a prospect obnoxious. Perhaps they are unwilling to share their profits. Or they may assert that local partnership is unworkable, impracticable, even dangerous, in face of the nationalism—specifically the economic nationalism—that is characteristic of so much of the Third World.

Economic Nationalism a Fact of Life

Certainly economic nationalism is widespread throughout the world. But if we are realistic we must recognize that it is a fact of life, that it is here to stay and that it is a natural consequence of the past behaviour of nations and of foreign investors. And, let's not forget, although economic nationalism may seem to assume its most extreme forms in some of the developing countries, it also flourishes in many of the industrialized countries.

There is no doubt that economic nationalism has changed, and will continue to change, traditional concepts and forms of foreign private investment. But it will never eliminate foreign private investment. On the one hand, as I have already said, the developing countries need the capital, the technology and the various kinds of expertise that are available only from the industrialized countries. On the other hand, the industrialized countries need raw materials, markets and—in some cases—production on more competitive terms. In short, if both groups would only recognize it, there is clearly a community of interest between developing countries and foreign investors on which they can build to their mutual advantage and benefit.

What is most needed is mutual confidence between investors and host countries. And confidence, in turn, must be based on understanding. How can such understanding be established?

Here, I suggest, we need to shift some mental gears.

Much of the distrust and suspicion of foreign investment felt by many of the developing countries has resulted from a lack of imagination and sensitivity in the attitudes and practices of, not all but too many, large corporations in their overseas investments. In today's world in particular, foreign investors need to be sensitive to the trends of the times, and to the implications of those trends, and to adjust to them.

They might begin by recognizing that economic nationalism is a reflection both of growing economic sophistication in the developing countries, and of the extent to which the governments of those countries are concerned with economic planning and development. In the countries of the Third World the setting of economic priorities and development goals is not merely a matter of maximizing growth; it is inseparable from social needs. The governments of those countries have their own developmental objectives and they generally know how they want to achieve them. They also know how to negotiate with foreign investors,

and, if you will, how to play off competing investors of the same or different nationalities.

This means that investors from the developed countries must recognize that it is not for them to decide whether and in what form the developing countries should avail themselves of the opportunities offered by private investment. They must understand that foreign private investment must be integrated into the development plans and priorities of the host country. No developing country will allow its development priorities to be set by others, or assume the risk that its development plans will be altered by a foreign corporation behaving like a rogue elephant.

For their part the developing countries must understand that private investors, however sensitive they may be to the modern world, need to look for a profit. Therefore foreign investors will only go to those countries where they will not be discriminated against because they are foreign, where they can invest on reasonable terms and where they will be assured of fair treatment in the years ahead.

If a broad understanding along these lines is achieved between foreign investors and host countries, a solid foundation for partnership between them will have been laid.

Types of Partnership

What type of partnership can be built on that foundation? Here I agree with Sir Alec, who said in the speech to which I have already referred: "Investors should involve the nationals of the recipient state to the maximum and strive for maximum participation of local capital." In my view this is one of the principal keys—if not the most important key—to successful foreign investment in the developing world.

There are many forms that partnership can take. One can be a production-sharing agreement by which the investment is recovered in the form of products. Another can be through an arrangement between an enterprise in a developed country and an enterprise in a developing country, by which the foreign enterprise licenses a production process and provides technical assistance to operate it in return for fees and other royalties without any participation in equity or management. These forms of cooperation have some advantages, but to my mind do not go far enough in involving the foreign investor in the enterprise concerned.

Another form of partnership is a joint venture between foreign and local investors. The local partners may be in a minority or, as some developing countries are now insisting, in a majority. In either case, the enterprise looks and is much more local than a wholly-owned foreign subsidiary, yet at the same time the foreign investor has a very real stake in the enterprise.

Still another type of local partnership is represented by a foreign investment made in accordance with a fade-out formula by which, after a term of years, the foreign partner withdraws and local interests take over. This pattern of investment has been adopted by the Andean Group countries in Latin America.

For the host country in particular this approach has certain attractions. But it also has some obvious shortcomings. A fade-out formula may attract short-term investors looking for a quick pay-out rather than investors who will provide the continuing flow of capital, technology and expertise that is essential to the long-term success of any business venture. Furthermore, any fade-out formula that leads to a forced sale is little different from expropriation without fair compensation.

The needs, the capacities, the objectives and the points of view of the developing countries of course differ widely. No single pattern for foreign investment will fit them all. But whatever form a partnership with local interests may take it is essential that it be not a token partnership undertaken for appearance or to gain entry to a country, but that it be a genuine partnership. The local

partners must not be just a front, or included merely to enable them to obtain a share in the profits of the enterprise. They should be represented in the management of the enterprise as well as in its ownership, and their compatriots should be given every opportunity—through training programs when necessary—to take as much responsibility as possible in the operation of the enterprise.

There are those who argue against local partnership of any sort. They assert that available capital in the developing countries is often in governmental rather than private hands; that a multinational company can be handicapped by having separate sets of shareholders whose interests are focussed on a particular operation in a single country; that a company's reputation and the quality of its products are endangered if control is in any way diluted, and that mixed ownership means mixed objectives and conflicting loyalties.

There may be some substance to each of these arguments. But they all ignore one overriding fact: namely, that the days of absolute foreign ownership and control are past.

All this is not to say that foreign corporations and foreign investors should act as charitable institutions towards the developing countries. Not at all. In the future as in the past, investment decisions must be made on hard-headed business grounds. On no account should any investor be expected to invest on any other basis.

Today, however, we have not only the hard-headed foreign investor but also the hard-headed host country. And despite all efforts to achieve mutual understanding and agreement, difficulties can still arise to prevent the creation of a fruitful partnership between them.

Avoiding Conflicts

There has been much discussion about a satisfactory form of lubricant for potentially abrasive situations. Some have suggested that overseas investment be undertaken by a supra-national company or companies. Others have proposed that foreign investment be carried out under varying degrees of international control or supervision.

These are interesting ideas, but they are unlikely to come to much in the foreseeable future. Of greater merit is the approach taken by the International Chamber of Commerce and the Pacific Basin Economic Council, composed of Australian, Canadian, New Zealand, Japanese and U.S. firms. Both the Chamber and the Council have worked out—independently of one another—not a code of conduct or of laws to be imposed upon investors and host countries, but guidelines for international investment that are intended to provide the basis for a dialogue between foreign investors and host countries.

This dialogue is now being carried on. In time it should lead to changed attitudes, increased understanding and greater confidence on both sides. Meanwhile, there are several ways ready at hand by which the risk of conflict between foreign investors and host countries may be reduced.

One way is to transform what would otherwise be a bilateral project into multilateral project. This is not always possible, particularly in industrial ventures. But in some cases, especially in mining, it is possible.

Let me give you an example. A large U.S. corporation plans a mining project in a Latin American country. To avoid too great local exposure it wishes to associate British, French, German and Japanese partners in the investment. Such an arrangement makes both the originating foreign investor and the host country feel more comfortable.

What IFC Can Do

Another means of reducing possible friction is to include as an investor in a project an international organization like the International Finance Corporation.

IFC is a self-contained affiliate of the World Bank—created for the specific purpose of promoting private enterprise in the developing coun-

tries. It does this by investing in company with local and foreign investors—always as a minority partner and taking no part in management. So far we have put $848 million of our own money into 203 projects with a total cost of $4 thousand million in 51 developing countries. You might be interested to know that, excluding petroleum investments and suppliers' credits, IFC and its associated investors in 1972 contributed on the order of 12% of the total flow of direct private foreign investment to the developing countries.

Since I have been talking about partnerships, let me point out that the promotion of more widely shared investment and ownership is one of IFC's basic objectives. We will invest in no enterprise unless there is immediate or early provision for some degree of local ownership.

But IFC represents more than just money. It is itself a partnership owned jointly by 98 developed and developing countries. As such it is able to act as a balancing factor between the interests of foreign investors and host countries. Time and again IFC's presence in a project has made possible the removal of difficulties and misunderstandings, and has helped establish that mutual confidence which is the only basis for a satisfactory and lasting relationship between foreign investors and developing countries.

In the 17 years of our existence we have been glad to have some 30 European enterprises as co-investors with us. In addition 67 European banks and financial institutions have been co-investors or participants in IFC's own investments. And in our last fiscal year investors in the member countries of the European community committed to IFC-assisted projects twice the amount of funds committed to those projects by investors from the United States.

We find this very encouraging. Europe, which today accounts for over 40% of world trade, is a significant source of private investment funds for the developing countries. Europe can play an important role in creating new forms of mutually beneficial relationships between foreign investors and the Third World, and we in IFC are eager to support any initiatives to that end.

Let me end on a note of caution. There is no way in which a foreign investor can fully protect himself from future difficulties when he invests in a developing country. Any investment in a volatile investment climate carries with it a high degree of risk. But once an investment decision has been taken, the prudent investor will give careful thought to how he can best achieve his investment objectives. And in my view, a meaningful partnership with local interests—if entered into and carried out in the proper spirit—offers the best hope of achieving long-term security for the foreign investor.

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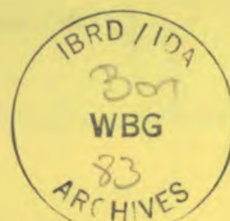
PRIVATE INVESTMENT AND LOCAL PARTNERSHIP



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Monsieur le Président, Mesdames et Messieurs, je tiens à vous remercier de l'honneur que vous m'avez fait en m'invitant à venir vous entretenir des questions concernant l'association des investissements privés étrangers et des entreprises nationales. J'ai, pour ma part, la conviction que l'avenir des investissements privés étrangers, notamment dans les pays en voie de développement, repose sur la participation des entreprises nationales à leurs activités.

Je voudrais, avant de développer mon idée, présenter quelques remarques générales sur la situation actuelle en ce qui concerne les investissements étrangers dans les pays du tiers monde.

Presque tous ces pays ont en commun deux caractéristiques: d'une part leur détermination de moderniser leur économie et d'atteindre leurs objectifs de développement, d'autre part leur besoin de capitaux pour les aider dans leurs efforts, besoin que seuls les pays industrialisés peuvent satisfaire.

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A l'avenir, tout comme dans le passé, ces capitaux émaneront de sources privées. Il y a deux ans de cela, au moment où se sont manifestés, dans le système monétaire mondial mis au point après 1945, les premiers signes des bouleversements qui depuis n'ont fait que s'amplifier, nombreux furent ceux qui pensèrent que le flux des capitaux privés vers les pays en voie de développement s'en trouverait ralenti. La situation monétaire internationale est encore incertaine, mais nous savons du moins que, jusqu'ici, le volume des capitaux privés affluant vers les pays en voie de développement n'a pas diminué. En 1972, selon les estimations de l'OCDE, il a été, en dollars, à peu près égal aux chiffres enregistrés en 1971. Qui plus est, rien ne laisse prévoir un ralentissement en 1973.

Les prêts en eurodevises

La rapidité étonnante avec laquelle ont augmenté les emprunts effectués par ces pays sur le marché de l'eurodevise donne une idée de la mesure dans laquelle les pays du tiers monde dépendent, pour leur économie, des capitaux privés en provenance des nations industrialisées. En 1972, plus de 40% de tous les prêts en eurodevises, émanant de sources privées et ayant été publiquement annoncés, ont été octroyés à des pays en voie de développement, contre 10% seulement en 1970. Selon certaines estimations, le volume de ces emprunts aurait atteint, en 1972, 7 à 8 milliards de dollars ou davantage, et tout semble indiquer qu'il a continué d'augmenter en 1973.

Certains ont accueilli cette tendance des pays en voie de développement à s'adresser de plus en plus au marché des capitaux privés comme une évolution souhaitable. Elle représenterait un retour à l'utilisation d'un moyen traditionnel de financer l'expansion économique, qui permet au pays emprunteur de rester maître de ses propres décisions quant à l'utilisation des fonds.

Je reconnais que le marché de l'eurodevise a joué un rôle important en ce qu'il a permis aux pays du tiers monde d'accéder au marché international des capitaux dans une mesure beaucoup plus grande qu'il ne leur avait été possible de le faire depuis la fin de la seconde guerre mondiale. J'admets également qu'il a permis d'opérer un transfert des ressources vers ces pays, qui sans cela n'aurait jamais été possible.

Néanmoins, les risques courus par les pays en voie de développement son très réels lorsqu'ils s'adressent pour leurs emprunts à un marché pour lequel il n'existe pas de normes établies en ce qui concerne les prêts, et aucun contrôle d'ensemble visant à les garantir contre des pratiques malsaines, d'autant plus que le volume de leurs emprunts est très élevé. J'ai lu tout récemment qu'un banquier avait déclaré qu'"un grand nombre de banques utilisent, sur le plan international, certains procédés qu'elles n'oseraient jamais utiliser sur le plan national. Et je crains qu'on n'ait abouti à la création d'une double norme pour ce qui est du crédit, l'une nationale, l'une internationale". Tel autre banquier a parlé de "la détérioration rapide de la situation en ce qui concerne les normes internationales de crédit".

Il ne faut pas oublier non plus que le marché de l'eurodevise est, par nature, en équilibre fragile, et très vulnérable vis-à-vis à la fois des investissements monétaires spéculatifs et des changements survenant dans les politiques économiques et financières des pays exportateurs de capitaux. Cette situation présente, pour les pays du tiers monde, un danger, comme l'a fait remarquer M. Johannes Witteveen, le nouveau Directeur général du Fonds Monétaire International, lorsqu'il a déclaré:

> "Toute réduction de la disponibilité des fonds sur ce marché rendrait difficile la gestion de l'endettement extérieur des pays qui se sont placés dans une situation telle qu'ils dépendent de façon excessive de cette source de capitaux."

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Il est un autre élément qui contribue à l'instabilité fondamentale des fonds en eurodevises et qui a pour origine les taux d'intérêt flottants qui accompagnent en général les prêts en ces monnaies lorsqu'ils sont mis à la disposition des pays du tiers monde. Ces taux flottants constituent une base trop fragile lorsqu'il s'agit du financement de projets industriels et de projets d'équipement à long terme.

Ces prêts en eurodevises présentent enfin une autre caractéristique qui ne doit pas être prise à la légère. Les investissements privés étrangers jouent un rôle important pour les pays en voie de développement, non seulement parce qu'ils leur fournissent des fonds pour financer leur développement, mais aussi parce qu'ils apportent avec eux la technologie, la gestion, la formation et la possibilité d'accès aux marchés étrangers, tous éléments qui n'abondent pas dans les pays du tiers monde. Les prêts en eurodevises, pour leur part, ne s'accompagnent d'aucun de ces éléments. En fait, ils sont souvent accordés sans même une évaluation de la viabilité des projets qu'ils sont destinés à financer.

S'adressant l'autre jour à l'Assemblée générale des Nations Unies, Sir Alec Douglas-Home a déclaré: "Le mot clef pour l'avenir du développement économique est 'association'." Mais il n'existe aucune association entre les prêteurs et les emprunteurs sur le marché de l'eurodevise, et ceci pour deux raisons: non seulement les prêteurs et les emprunteurs sont-ils inévitablement éloignés les uns des autres, mais encore les prêteurs ne participent-ils pas directement aux opérations de l'entreprise dans laquelle leurs fonds sont investis.

A mon avis, il faudra redoubler d'efforts pour compléter avec des capitaux à long terme les fonds en eurodevises destinés à aider les pays en voie de développement. Et c'est là que les investissements privés étrangers entrent en jeu.

Jusqu'ici, les rapports entre les investisseurs étrangers et les pays hôtes ont souvent été aussi lointains que les relations entre prêteurs et emprunteurs sur le marché de l'eurodevise. Ils le sont aujourd'hui restés dans certains cas où aucune forme d'association ne s'est manifestée. A mon avis, ce genre de situation est dépassé. L'avenir de l'investissement privé étranger doit être fondé sur une association étroite et efficace entre les investisseurs étrangers et les intérêts nationaux.

Certains investisseurs, dans les pays industrialisés, trouvent l'idée ridicule. Peut-être ne sont-ils pas désireux de partager avec d'autres leurs bénéfices. Ou peut-être pensent-ils que ce genre d'association est impossible, irréalisable et même dangereuse, étant donné les sentiments de nationalisme—et particulièrement de nationalisme économique—qu'affichent aujourd'hui un si grand nombre de pays en voie de développement.

Un fait établi: le nationalisme économique

Il est un fait que le nationalisme économique est très répandu dans le monde. Mais si nous sommes réalistes, nous devons l'accepter comme un fait établi, admettre qu'il n'y aura pas de retour en arrière, et qu'il n'est qu'une conséquence logique du comportement des nations et des investisseurs étrangers dans le passé. D'autre part, il ne faut pas oublier que si certains pays du tiers monde semblent manifester un nationalisme économique outrancier, il est aussi présent dans un grand nombre de nations industrialisées.

Il ne fait aucun doute que le nationalisme économique a modifié les formes et concepts traditionnels de l'investissement privé étranger et continuera de le faire. Mais il n'éliminera jamais l'investissement privé étranger. D'une part, comme je l'ai déjà dit, les pays en voie de développement ont besoin des capitaux, de la technologie et des connaissances diverses que seuls les pays industrialisés peuvent offrir. Ces derniers, quant à

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eux, ont besoin de matières premières, de débouchés et, dans certains cas, d'une offre de produits qui soient plus compétitifs. En résumé, si les uns et les autres voulaient seulement l'admettre, il est évident que les pays en voie de développement et les investisseurs étrangers ont des intérêts communs qu'ils pourraient exploiter pour leur bien mutuel.

Ce qui est le plus indispensable, c'est la confiance réciproque des investisseurs et des Etats hôtes. La confiance, quant à elle, ne peut être fondée que sur l'entente. Comment parvenir à une entente?

Faisons quelques efforts de réflexion.

Dans bien des cas, la méfiance et la suspicion ressenties par un grand nombre de pays en voie de développement vis-à-vis des investissements étrangers ont été le résultat du manque d'imagination et de sensibilité dont ont fait preuve, dans leurs attitudes et leur comportement, sinon toutes les grandes corporations, du moins un trop grand nombre d'entre elles, en ce qui concerne leurs investissements à l'étranger. Mais le monde a évolué, et de nos jours les investisseurs étrangers ne peuvent plus rester indifférents aux tendances de notre temps et aux effets qu'elles entraînent, et refuser de s'y adapter.

Ils pourraient, dans un premier pas, admettre que le nationalisme économique est après tout la manifestation du degré de sophistication économique atteint par les pays du tiers monde, et de la mesure dans laquelle les gouvernements de ces pays font des efforts de planification et de développement économique. Dans ces pays, la détermination des priorités économiques et des objectifs de développement ne repose pas uniquement sur la maximisation de la croissance; elle est intimement liée aux besoins sociaux. Les gouvernements des pays du tiers monde ont leurs propres objectifs de développement et ont en général une idée de la façon dont ils veulent y parvenir. Ils savent également comment négocier avec les investisseurs étrangers et, disons même, comment exploiter la concurrence que se font entre eux ces derniers, qu'ils soient de même nationalité ou d'origines différentes.

Cela signifie que les investisseurs des pays industrialisés doivent réaliser qu'il ne leur appartient pas de décider si oui ou non les pays en voie de développement doivent saisir les occasions que leur offrent les investissements privés, ou d'imposer leurs points de vue en ce qui concerne la forme que ces investissements devront prendre. Il leur faut comprendre que les investissements privés étrangers doivent être intégrés dans les plans et priorités de développement de l'Etat hôte, et qu'aucun pays du tiers monde ne permettra que ses priorités de développement soient fixées par des tiers, ni ne courra le risque de voir ses plans de développement modifiés par une firme étrangère se comportant comme un éléphant dans une ménagerie de verre.

Les nations du tiers monde, quant à elles, doivent comprendre que les investisseurs privés, s'ils se doivent de ne pas être indifférents à l'évolution du monde moderne, n'en cherchent pas moins à réaliser des bénéfices. Et que par conséquent ils ne se tourneront que vers les pays où le fait d'être étranger ne sera pas pour eux une source de déboires, où ils pourront investir à des conditions raisonnables, et où ils pourront être assurés d'être équitablement traités dans les années à venir.

Si les investisseurs étrangers et les Etats hôtes parviennent à s'entendre, d'une façon générale, sur ces points, ils auront réussi à établir des fondations solides en vue de leur association.

Les divers types d'association

Quel type d'association pourra-t-on alors construire sur ces fondations? La réponse a été donnée par Sir Alec Douglas-Home, dans le discours auquel j'ai fait allusion plus haut. Je suis entièrement de son avis quand il déclare: "Les in-

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vestisseurs doivent intéresser au maximum à leurs activités les ressortissants de l'Etat bénéficiaire, et doivent s'efforcer d'obtenir une participation maximale du capital local." A mon avis, c'est là l'un des principaux facteurs, sinon le facteur essentiel, dont dépend le succès des investissements étrangers dans le tiers monde.

L'association peut revêtir un grand nombre de formes. Il peut s'agir d'un accord de participation à la production, aux termes duquel les fonds investis seront récupérés sous forme de produits. Ou bien il peut s'agir d'un accord passé entre une entreprise appartenant à un pays industrialisé et une entreprise appartenant à un pays en voie de développement, aux termes duquel la firme étrangère autoriserait l'entreprise nationale à utiliser un certain processus de production, et lui fournirait l'assistance technique indispensable pour cela, en échange d'honoraires et autres redevances, sans pour cela participer à son capital social ou à sa gestion. Ces formes de coopération présentent certains avantages, mais à mon avis elles ne vont pas assez loin lorsqu'il s'agit de faire participer l'investisseur étranger à l'entreprise bénéficiaire.

La création d'une entreprise à laquelle participent des investisseurs locaux et étrangers constitue une autre forme d'association, dans laquelle les investisseurs locaux sont soit actionnaires minoritaires, soit, comme l'exigent aujourd'hui un certain nombre de pays en voie de développement, majoritaires. Dans l'un et l'autre cas, l'entreprise a davantage l'apparence—et le statut—d'une entreprise nationale que s'il s'agissait de la succursale d'une firme étrangère, ce qui n'empêche pas l'investisseur étranger d'avoir dans cette entreprise un intérêt réel.

Le cas peut également se présenter où un investissement étranger est effectué conformément à une formule qui prévoit, après un certain nombre d'années, le retrait du partenaire étranger et la reprise totale de l'affaire par des entrepreneurs locaux. C'est ce genre d'investissement qu'ont adopté les pays d'Amérique latine appartenant au Groupe des Andes.

Cette formule, si elle est particulièrement attrayante pour l'Etat hôte, offre tout de même certains désavantages évidents. Elle risque d'attirer des investisseurs voulant placer leur argent à court terme, à la recherche d'un profit rapide, plutôt que des investisseurs prêts à assurer le flot continu de capitaux, de technologie et de savoir-faire qui est essentiel si l'on veut assurer la réussite à long terme d'une entreprise, quelle qu'elle soit. En outre, toute formule de ce genre, qui aboutit à une vente forcée, n'est généralement pas éloignée de l'expropriation sans juste compensation.

Il est évident que les pays en voie de développement ont des besoins, des aptitudes, des objectifs et des points de vue très différents. Et que par conséquent une formule unique applicable aux investissements étrangers ne saurait convenir à chacun d'entre eux. Mais quelle que soit la forme d'association avec les intérêts locaux à laquelle on parvient, il est indispensable qu'elle ne soit pas simplement symbolique et destinée à sauver les apparences ou à accéder au marché intérieur d'un pays, mais bien une association véritable. Les partenaires locaux ne doivent pas être présents pour la forme, ou pour l'unique raison de leur permettre d'obtenir une part des bénéfices de l'entreprise. Ils doivent prendre part à la gestion de cette dernière, et leurs compatriotes doivent avoir la possibilité—grâce, éventuellement, à des programmes de formation—de participer autant que possible à la vie de l'entreprise.

Certains s'opposent à toute idée d'association avec des partenaires locaux, quelle que soit la forme. A leur avis, les capitaux disponibles dans les pays en voie de développement sont souvent des fonds publics, rarement des fonds privés, et ils craignent qu'une firme multinationale ne soit gênée dans ses opérations si ses actionnaires forment des groupes indépendants dont les intérêts

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respectifs sont concentrés sur une opération particulière, dans un pays donné; ils pensent également que si le contrôle d'une affaire est, à un degré quelconque, réparti entre plusieurs groupes, la réputation d'une firme et la qualité de ses produits risquent d'en souffrir, et qu'une association, au niveau de la participation au capital, ne peut conduire qu'à la poursuite d'objectifs différents et à un conflit d'intérêt.

Si chacun de ces arguments contient une part de vérité, ils ont cependant en commun un défaut: ils semblent ignorer que le temps de l'entreprise étrangère entièrement aux mains et sous le contrôle d'investisseurs étrangers est révolu.

Ceci ne veut pas dire que les firmes étrangères et les investisseurs étrangers doivent se comporter comme des institutions charitables vis-à-vis des pays en voie de développement. Il n'en est pas du tout question. Dans l'avenir, comme dans le passé, les décisions d'investissement doivent être fondées sur des espoirs de rentabilité solides. En aucun cas doit-on s'attendre qu'un investisseur ignore ce principe lorsqu'il place ses fonds.

Aujourd'hui cependant, si l'investisseur étranger est toujours décidé à maximiser son profit, le pays hôte est pour sa part décidé à imposer certaines de ses vues. Et malgré tous les efforts pour parvenir à une entente mutuelle, il est possible que des difficultés surgissent qui empêchent que s'établissent entre eux des liens d'association profitables aux uns comme aux autres.

Comment éviter les conflits?

On a cherché à trouver une solution satisfaisante qui permettrait de parvenir à un règlement dans les situations où il existe un potentiel de conflit. Certains ont proposé que les investissements à l'étranger soient confiés à une ou à plusieurs firmes supranationales. D'autres, que les investissements étrangers soient placés sous le contrôle ou la supervision internationale, à des degrés divers.

Il est peu probable que ces idées, au demeurant intéressantes, se matérialisent dans un proche avenir. Par contre, la solution appliquée par la Chambre de commerce internationale et le Conseil économique des Pays du Bassin Pacifique, composé de firmes australiennes, canadiennes néo-zélandaises et japonaises, est beaucoup plus satisfaisante. Ces deux organismes ont mis au point, indépendamment l'un de l'autre, non pas un code de comportement ou de lois à imposer aux investisseurs et aux Etats hôtes, mais des directives portant sur l'investissement international, et destinées à jeter les bases d'un dialogue entre les investisseurs étrangers et les pays bénéficiaires.

Ce dialogue a déjà été entamé, et à terme il pourrait amener des changements d'attitude, une meilleure entente et une plus grande confiance chez les uns et les autres. En attendant, il existe un certain nombre de moyens permettant de réduire les risques de litiges entre les investisseurs étrangers et les Etats hôtes.

On peut, par exemple, transformer un projet bilatéral en un projet multilatéral. Cette transformation n'est pas toujours possible, notamment lorsqu'il s'agit d'entreprises industrielles, mais dans certains cas, et particulièrement dans le secteur minier, il existe des possibilités.

En voici un exemple: une importante firme américaine envisage de réaliser un projet minier dans un pays d'Amérique latine. Pour éviter de donner l'apparence d'une mainmise américaine dans ce secteur, elle souhaite associer au projet des partenaires anglais, français, allemands et japonais. Ce genre d'arrangement met l'investisseur étranger et l'Etat hôte plus à l'aise.

Que peut faire la SFI?

Un autre moyen qui permet de réduire les frictions possibles consiste à associer au financement du projet une organisation internationale telle que la Société Financière Internationale.

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La SFI, membre du Groupe de la Banque Mondiale, a été créée dans le but spécifique d'encourager l'entreprise privée dans les pays du tiers monde. Pour ce faire, elle collabore, avec des investisseurs locaux et étrangers, au financement d'entreprises privées, mais elle n'est jamais actionnaire majoritaire, et ne prend jamais part à la gestion de l'affaire. Jusqu'ici, elle a investi 848 millions de dollars dans la réalisation de 203 projets d'un coût total de 4 milliards de dollars, dans 51 pays du tiers monde. En 1972, à l'exclusion des investissements pétroliers et des crédits-fournisseurs, la SFI et les investisseurs auxquels elle s'est associée ont fourni 12% du volume total des investissements privés directs acheminés vers les pays du tiers monde.

Et puisque nous parlons d'association, je me permettrai de souligner que l'un des objectifs fondamentaux de la SFI est de promouvoir des opérations d'investissement conjointes, dans lesquelles s'associent des investisseurs nationaux et étrangers, et elle n'investit dans une entreprise que s'il existe ou si sont prévues des dispositions visant la participation d'investisseurs locaux.

Mais la SFI n'est pas uniquement une institution financière. Elle est elle-même une entreprise en participation, dont les membres, au nombre de 98, sont des pays industrialisés et des pays en voie de développement. En tant que telle, elle a le pouvoir d'être un facteur d'équilibre entre les intérêts des investisseurs étrangers et ceux des pays hôtes. A plusieurs reprises, la présence de la SFI dans un projet a permis d'éliminer les difficultés et les malentendus, et contribué à faire régner la confiance mutuelle sans laquelle il ne peut y avoir de relations satisfaisantes et durables entre les investisseurs étrangers et les pays du tiers monde.

En 17 ans d'existence, elle a eu pour coinvestisseurs une trentaine d'entreprises européennes. En outre, 67 banques et institutions financières européennes ont participé à des investissements aux côtés de la SFI. Au cours du dernier exercice, les capitaux engagés par des investisseurs appartenant à des pays membres de la communauté européenne, pour la réalisation de projets auxquels la SFI prêtait son concours, ont été deux fois plus importants que les fonds engagés dans les mêmes projets par les investisseurs américains.

A mon avis, ceci est très encourageant. L'Europe, qui de nos jours participe pour plus de 40% au commerce mondial, constitue pour les pays du tiers monde une source considérable de fonds d'investissements privés. L'Europe peut jouer un rôle important dans la mise au point de nouvelles formes de relations entre les investisseurs étrangers et le tiers monde qui soient dans l'intérêt des deux parties, et je peux affirmer que la SFI est pour sa part prête à donner son appui à toute initiative de ce genre.

Je voudrais terminer sur une mise en garde. Il n'existe aucun moyen qui permette à un bailleur de fonds étranger, lorsqu'il investit dans un pays en voie de développement, de se mettre entièrement à l'abri des difficultés qui pourraient surgir dans l'avenir. Il y a toujours un certain risque à investir dans un pays susceptible de modifier sa politique à l'égard des investissements extérieurs. Mais, une fois prise la décision d'investir, l'investisseur prudent doit étudier avec soin les moyens d'atteindre ses objectifs d'investissement dans les meilleures conditions possibles. Et à mon avis, une association avec les entrepreneurs locaux, fondée sur des objectifs valables, offre à l'investisseur étranger le meilleur moyen d'assurer à long terme la sécurité de ses investissements.

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INVERSION EXTRANJERA Y PARTICIPACION NACIONAL

Discurso pronunciado por

William S. Gaud

Vicepresidente Ejecutivo de la

Corporación Financiera Internacional

en una Conferencia sobre

"La Comunidad Europea y el Tercer Mundo"

organizada por The Financial Times

Londres

7 de noviembre de 1973

CFI

Spanish

Señor presidente, señoras y señores: es para mí un honor el haber sido invitado a hablarles hoy sobre la inversión privada en colaboración con socios locales. En mi opinión, la participación de socios locales debe ser un elemento esencial en el futuro de la inversión privada extranjera, especialmente en los países en desarrollo.

Pero antes de explicar por que opino así, quisiera hacer algunos comentarios generales sobre la situación actual.

Casi todos los países en desarrollo presentan dos características notables. La primera es su firme decisión de modernizarse, de lograr sus objetivos de desarrollo. La segunda es la necesidad de capital para financiar este esfuerzo, necesidad que sólo los países industrializados pueden satisfacer.

En el futuro, tal como ocurrió en el pasado, gran parte de este capital será de origen privado. Hace dos años, cuando el sistema monetario internacional en vigencia desde 1945 comenzó a experimentar cambios que últimamente parecen calidoscópicos, muchos pensaron que la afluencia de la inversión privada hacia los países en desa-

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rrollo se reduciría. Si bien el panorama monetario internacional es aún muy incierto, sabemos que por lo menos hasta ahora el flujo del capital privado hacia los países en desarrollo no ha disminuido. La OCED calcula que en 1972 el volumen en dólares de este flujo de recursos fue aproximadamente igual al de 1971, y no parece haberse reducido en 1973.

Préstamos en Eurodólares

El aumento en el volumen de préstamos obtenidos por los países en desarrollo en el mercado de euromonedas refleja en forma sorprendente la medida en que dichos países dependen de los recursos privados de los países industrializados. Más del 40% del volumen total de los préstamos en euromonedas anunciados en 1972 se destinó a países en desarrollo, contra sólo un 10% en 1970. Se estima que en 1972 tales préstamos alcanzaron o sobrepasaron un nivel de 7 u 8 mil millones de dólares, y todo parece indicar que en 1973 su volumen ha seguido aumentando.

Hay quienes consideran conveniente esta tendencia de los países en desarrollo a utilizar en forma más intensa el mercado privado de capitales. Se dice que significa volver a una forma tradicional de financiar la expansión económica que permite al prestatario decidir el destino del capital.

Reconozco que el mercado de euromonedas ha contribuido en forma importante a que la participación de los países en desarrollo en el mercado internacional de capitales se elevara a niveles que no les fuera posible alcanzar desde la segunda guerra mundial. También reconozco que ha permitido efectuar una transferencia de recursos a dichos países que de otra forma no hubiera resultado posible.

No obstante, creo que los países en desarrollo corren serios riesgos al operar en tal escala en un mercado que carece de normas de crédito establecidas y de una supervisión general reguladora de las operaciones que permita evitar prácticas poco aconsejables. Recientemente observaba un banquero que "muchos bancos siguen en el plano internacional prácticas que jamás admitirían en sus operaciones nacionales. Me temo que se ha llegado a una situación en la que las normas habituales para los créditos nacionales no se aplican a los internacionales." Y otro banquero se refería al "rápido deterioro de las normas de crédito internacional."

Debemos tener en cuenta también que en el mercado de euromonedas, por su propia naturaleza, existe un equilibrio muy delicado, harto sensible a la especulación monetaria y a cambios en las políticas económicas y financieras de los países exportadores de capital. Esto presenta serios peligros para los países en desarrollo que el Sr. Johannes Witteven, nuevo Director Gerente del Fondo Monetario Internacional, señaló recientemente:

> "Una reducción en la disponibilidad de fondos en este mercado complicaría la administración de la deuda externa de los países que hubieran llegado a depender demasiado de esta fuente de financiación."

Los tipos flotantes de interés empleados generalmente en los préstamos en euromonedas hechos a países en desarrollo son otra fuente de incertidumbre inherente a dichos créditos. Estos tipos de interés constituyen una base demasiado inestable para la financiación a largo plazo de proyectos industriales y de infraestructura.

Los préstamos en euromonedas presentan además otra característica que no debe ignorarse. La inversión privada extranjera es importante para los países en desarrollo no sólo por el capital transferido sino también por traer aparejados otros recursos escasos en el tercer mundo: tecnología, administración, capacitación y acceso a mercados externos. Los préstamos en euromonedas no aportan tales recursos. A decir verdad, a

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menudo se hacen sin siquiera evaluar los proyectos que financiarán.

Sir Alec Douglas-Home manifestó recientemente, al dirigirse a la Asamblea General de las Naciones Unidas: "El concepto clave en el futuro del desarrollo económico es el de la asociación con capitales locales." Pero en el mercado de euromonedas no existe asociación entre el prestamista y el prestatario, no sólo por la distancia que los separa sino también por no estar los prestamistas comprometidos directamente en la empresa que utilizará sus fondos en última instancia.

Creo que es necesario realizar un esfuerzo mayor para complementar los fondos en euromonedas utilizados por los países en desarrollo con fondos adicionales a largo plazo. Y esto me conduce al tema de la inversión privada extranjera.

A menudo, en el pasado, las relaciones entre los inversionistas extranjeros y los países receptores han sido tan remotas como las de prestamistas y prestatarios en el mercado de euromonedas. En algunos casos todavía lo son, ya que carecen de cualquier tipo de participación local. Esta situación es, en mi opinión, obsoleta. En el futuro la inversión privada debe basarse en la estrecha y efectiva asociación de inversionistas extranjeros e intereses locales. Para algunos inversionistas de los países industrializados este concepto resulta inaceptable. Quizás no estén dispuestos a compartir sus beneficios. O quizás afirmen que trabajar con socios locales es poco práctico, imposible, y hasta peligroso, dado el nacionalismo—específicamente el nacionalismo económico—que caracteriza a gran parte del tercer mundo.

El nacionalismo económico es algo inevitable

Es indudable que el nacionalismo económico está muy difundido en el tercer mundo. Pero si somos realistas tendremos que reconocer que es algo natural, que seguirá existiendo, y que es la consecuencia lógica de la conducta pasada de otros países y de ciertos inversionistas extranjeros. Y no olvidemos que, aunque el nacionalismo económico parece cobrar sus formas más extremas en algunos de los países en desarrollo, se lo encuentra también en muchos de los países industrializados.

No cabe duda de que el nacionalismo económico ha afectado—y seguirá afectando—los conceptos y formas tradicionales de la inversión privada extranjera. Pero nunca podrá eliminarla por completo. Por un lado, como ya he mencionado, los países en desarrollo necesitan el capital, la tecnología y los distintos tipos de conocimientos especializados que sólo es posible obtener en los países industrializados. Por otro lado, los países industrializados necesitan las materias primas, los mercados y, en algunos casos, la oportunidad de producir artículos en condiciones más competitivas. Resulta por lo tanto evidente que existen intereses comunes a los países en desarrollo y a los inversionistas extranjeros que, de ser reconocidos, podrían ser la base de una cooperación provechosa para ambas partes.

Pero para que ello sea posible es necesario que exista una base de confianza recíproca entre los inversionistas y los países receptores. Y esta confianza deberá, a su vez, basarse en una mutua comprensión. ¿Cómo puede lograrse tal comprensión?

Sugiero que aquí se hace necesario un cambio de actitudes mentales.

Gran parte de la desconfianza y el recelo que muchos de los países en desarrollo abrigan hacia los inversionistas extranjeros es consecuencia de la conducta y los métodos—carentes de imaginación y sensibilidad—que no todas, pero por desgracia demasiadas de las grandes corporaciones emplean en sus inversiones en el extranjero. En el mundo actual, especialmente, los inversionistas extranjeros deben estar atentos a los cambios que se están produciendo en el ambiente para

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modificar su conducta con base en lo que estos cambios implican.

Podrían empezar por reconocer que el nacionalismo económico es un reflejo de la creciente sofisticación económica de los países en desarrollo, y del grado de preocupación de sus respectivos gobiernos con el planeamiento económico y el desarrollo. En los países del tercer mundo, los objetivos de desarrollo y las prioridades económicas no buscan sólo el máximo crecimiento económico; están también íntimamente ligados a necesidades de orden social. Además de tener sus propios objetivos de desarrollo, los gobiernos de estos países saben en general por que medios quieren lograrlos. Saben también cómo negociar con inversionistas extranjeros y cómo aprovechar la competencia entre inversionistas ya sea de la misma nacionalidad o de diferentes países.

Esto significa que los inversionistas de los países desarrollados deben reconocer que no les corresponde decidir si los países en desarrolo deben aprovechar los beneficios que ofrece la inversión privada, ni tampoco en que forma lo harán. Deben comprender que la inversión privada extranjera tiene que adaptarse a los planes de desarrollo y a las prioridades del país receptor. Ningún país en desarrollo permitirá que otros fijen sus prioridades de desarrollo, ni se arriesgará a que sus planes de desarrollo sean modificados por una corporación extranjera que se comporte como un elefante salvaje.

Por su parte, los países en desarrollo deberán entender que los inversionistas privados, aunque comprendan plenamente las realidades del mundo moderno, necesitan obtener resultados económicos satisfactorios. En consecuencia, los inversionistas extranjeros acudirán sólo a los países que no discriminen contra ellos por el hecho de ser extranjeros, que les permitan realizar inversiones bajo condiciones razonables, y que les ofrezcan seguridades de un trato justo en años futuros.

Si se consigue un entendimiento general de este tipo entre los inversionistas extranjeros y los países receptores, se habrá asentado una base sólida para la cooperación.

Clases de Colaboración

¿Qué tipo de colaboración puede construirse sobre esta base? Sobre este punto estoy de acuerdo con Sir Alec, que en el discurso al que ya me he referido dijo: "Los inversionistas deberán asociar en la mayor medida posible a ciudadanos del país receptor, y tratar de obtener la mayor participación posible de capitales locales." En mi opinión, esta es una de las claves principales, si no la más importante, del éxito de las inversiones extranjeras en los países en desarrollo.

Las asociaciones pueden adoptar diversas formas. Una de ellas puede ser un acuerdo de participación en la producción mediante el cual la inversión se recupera en forma de productos físicos. Otra puede ser un convenio entre una empresa de un país desarrollado y otra de un país en desarrollo, mediante el cual se licencia un proceso de producción y se provee la asistencia técnica necesaria para operarlo, a cambio de honorarios y regalías, sin intervenir en la propiedad o en la administración. Estos tipos de cooperación ofrecen ciertas ventajas pero, en mi opinión, no logran una adecuada participación del inversionista extranjero en la empresa.

Otra forma de asociación es la empresa conjunta que reúne inversionistas locales y extranjeros. Los socios locales pueden estar en minoría, o como lo requieren ahora algunos países en desarrollo, ser mayoría. En ambos casos la empresa parece y es mucho más local que lo que parecería y sería una subsidiaria controlada totalmente por una empresa extranjera, pero el inversionista extranjero conserva un interés real en la empresa.

Otra forma más de asociarse con elementos locales es la de realizar la inversión extranjera bajo una fórmula de reducción progresiva de la

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misma, según la cual el socio extranjero se retira al cabo de algunos años e intereses locales se hacen cargo de la empresa. Este tipo de inversión ha sido adoptado por los países del Grupo Andino en América Latina.

Para el país receptor, en particular, este sistema ofrece ciertas ventajas. Pero tiene también defectos obvios. La fórmula de reducción progresiva de la inversión puede atraer a inversionistas interesados en la recuperación rapida de su capital, en lugar de atraer a inversionistas capaces de proveer aquella corriente continua de capital, tecnología y pericia esenciales a la larga para asegurar el éxito de una empresa comercial. Es más, una fórmula de reducción progresiva de la inversión que conduzca a una venta forzada no es en realidad muy distinta de una expropiación sin compensación justa.

Las necesidades, la capacidad, los objetivos y los puntos de vista de los diversos países en desarrollo son naturalmente muy distintos entre sí. No hay ninguna fórmula para realizar inversiones en el extranjero que sirva para todos ellos. Pero cualquiera que sea el método adoptado para lograr una asociación con intereses locales, lo esencial será que no sea una colaboración meramente nominal, formada para salvar las apariencias o para tener acceso a un país, sino que sea una asociación genuina. Los socios locales no deben servir simplemente de frente, ni deben ser incluídos sólo para participar en las ganancias de la empresa. Deben tomar parte tanto en la administración de la empresa como en su propiedad, y sus compatriotas deberán gozar de amplias oportunidades—mediante programas de capacitación si fuera necesario—de asumir la mayor responsabilidad posible en las operaciones de la empresa.

Hay quienes se oponen a cualquier tipo de asociación local. Afirman que el capital disponible en los países en desarrollo se encuentra frecuentemente más en manos del gobierno que en privadas; que una compañía multinacional se verá entorpecida al tener diversos grupos de accionistas cuyos intereses se limitan a una operación radicada en un país específico; que diluir el control de una compañía es arriesgar tanto su reputación como la calidad de sus productos; y que la propiedad mixta conduce a confusión de objetivos y a conflictos de lealtades.

Puede que tengan algo de razón los que así argumentan. Pero no tienen en cuenta un hecho fundamental, y es que ya han pasado los tiempos en que las empresas extranjeras podían gozar de derechos de propiedad absolutos y ejercer un control total.

Esto no quiere decir que las corporaciones y los inversionistas extranjeros deban funcionar en los países en desarrollo como instituciones de caridad. De ninguna manera. Tanto en el futuro como en el pasado, sus decisiones deberán hacerse sobre bases rigurosamente comerciales. Bajo ninguna circunstancia deberá esperarse que un inversionista se rija por otro patrón.

Pero hoy en día no es el inversionista extranjero el único que aplica criterios de selección rigurosos. El país receptor también los tiene, y aunque ambos se empeñan en lograr acuerdos y entendimientos mutuos, pueden aún presentarse dificultades que les impidan establecer una asociación provechosa.

Para evitar conflictos

Se ha hablado mucho sobre la lubricación que debe usarse en situaciones potencialmente abrasivas. Algunos han sugerido que todas las operaciones de inversión en el exterior estén a cargo de una compañía—o compañías—supranacionales. Otros han propuesto que tales inversiones se efectúen bajo diversos grados de supervisión y control internacionales.

Estas ideas son interesantes, pero es poco probable que lleguen muy lejos en el futuro inmediato. Más prometedor es el enfoque propuesto, en forma independiente, por la Cámara de Comer-

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cio Internacional y por el Consejo Económico de la Cuenca del Pacífico, compuesto por firmas de Australia, Nueva Zelandia, Japón y los Estados Unidos. La Cámara y el Consejo han formulado, en lugar de un código de conducta o de leyes a las que deban someterse los inversionistas y los países receptores, una serie de pautas para las inversiones internacionales encaminadas a establecer las bases de un diálogo entre ambas partes.

Este diálogo está teniendo lugar actualmente. Con el tiempo debería conducir a un cambio de actitudes, a un mejor entendimiento y a una mayor confianza por ambas partes. Mientras tanto, disponemos de medios para reducir el riesgo de un conflicto entre los inversionistas extranjeros y los países receptores.

Uno de ellos es la conversión de proyectos bilaterales en proyectos multilaterales. Esto no resulta siempre factible, particularmente en el caso de empresas industriales. Pero en algunos casos, y especialmente en el caso de la minería, resulta posible hacerlo.

Permítanme citar un ejemplo. Una gran corporación de los Estados Unidos planea un proyecto de minería en un país de la América Latina. A fin de reducir su presencia local desea asociarse, para realizar la inversión, con capitales ingleses, franceses, alemanes y japoneses. Este arreglo permite que tanto el inversionista extranjero como el país receptor se sientan más cómodos.

Lo que la CFI puede hacer

Otra forma de reducir posibles fricciones entre el inversionista extranjero y el país receptor es hacer que una organización internacional como la Corporación Financiera Internacional participe como inversionista en el proyecto.

La CFI es una institución afiliada al Banco Mundial, creada específicamente para fomentar la empresa privada en los países en desarrollo. Para ello realiza inversiones asociada a inversionistas locales y extranjeros—siempre en con-

dición de socio minoritario y sin participar en modo alguno en la administración de los proyectos. Hemos invertido hasta ahora 848 millones de dólares de nuestros propios recursos en 203 proyectos en 51 países en desarrollo, con un costo total de 4 mil millones de dólares. Puede que les interese saber que la CFI y sus inversionistas asociados contribuyeron en 1972 el 12% del total de las inversiones directas extranjeras, excluidas las del sector petrolífero y los créditos de proveedores, en los países en desarrollo.

Y ya que he estado hablando sobre la colaboración con socios locales, permítanme señalar que uno de los objetivos básicos de la CFI es fomentar una mayor difusión de la inversión y de la propiedad en el medio local. Al efecto, nunca hacemos una si no se contempla, en el momento de hacerla, o dentro de un plazo razonable, alguna forma de participación local.

Pero la CFI representa más que una fuente de capital. Es a su vez fruto de la asociación de 98 países desarrollados y en desarrollo. Como tal, es capaz de ejercer una acción estabilizadora entre los intereses de los inversionistas extranjeros y los de los países receptores. Una y otra vez, la presencia de la CFI en un proyecto ha permitido resolver dificultades y aclarar malentendidos, y ha contribuido a establecer esa confianza mutua que es la única base de una relación satisfactoria y duradera entre los inversionistas extranjeros y los países en desarrollo.

En nuestros 17 años de vida hemos tenido el placer de contar con 30 empresas europeas como coinversionistas. Además, 67 bancos e instituciones financieras europeas han sido coinversionistas en proyectos de la CFI, o han adquirido participaciones en ellos.

Y en nuestro último año fiscal, el apoyo financiero que los proyectos asistidos por la CFI recibieron de los inversionistas de países de la comunidad europea fue dos veces mayor que el recibido de inversionistas de los Estados Unidos.

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Esto nos alienta mucho. Europa, que genera actualmente un 40% del comercio mundial, es una fuente importante de fondos de inversión privados para los países en desarrollo. Europa puede jugar un papel importante en la creación de nuevas relaciones, mutuamente provechosas, entre los inversionistas extranjeros y el tercer mundo, y en la CFI estamos preparados a apoyar cualquier iniciativa que contribuya al logro de este objetivo.

Permítanme concluir con una advertencia. No existe manera de que el inversionista extranjero se proteja en forma absoluta contra problemas que puedan surgir en el futuro. Toda inversión efectuada en un clima de inversión volátil implica serios riesgos. Pero una vez que se ha decidido a invertir, el inversionista prudente considerará cuidadosamente qué medios emplear para obtener los objetivos deseados. Y, en mi opinión, una operación en la que participen socios locales—encarada con una actitud positiva—ofrece al inversionista extranjero las mejores garantías de seguridad a largo plazo.

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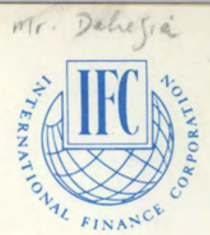

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PRIVATE INVESTMENT AND LOCAL PARTNERSHIP

Speech by

William S. Gaud

Executive Vice President

International Finance Corporation

at a lunch on the first day of

a Financial Times Conference on

"The European Community and the Third World"

London

November 7 and 8, 1973

PRIVATE INVESTMENT AND LOCAL PARTNERSHIP

Speech by William S. Gaud
at a conference on "The European Community and the Third World"
organized by The Financial Times
London, November 7 and 8, 1973

Mr. Chairman, Ladies and Gentlemen. I am honoured by your invitation to speak to you today on Private Investment and Local Partnership. I believe that local partnership is fundamental to the future of private foreign investment, especially in the developing countries.

Before I explain why I say that let me make a few general comments on the present foreign investment scene as it relates to the developing countries.

Nearly all those countries have two outstanding characteristics. One is a determination to modernize -- to achieve their development objectives. The other is their need for capital to support their efforts -- a need that can only be filled by the industrialized countries.

In the future as in the past much of this needed capital will come from private sources. Two years ago, when the post-1945 world monetary system began to be affected by changes which have since become kaleidoscopic, there were many who thought that the flow of private capital to the developing countries would slow down. There is still great uncertainty on the international monetary scene, but at least we know that thus far the flow of private capital to the developing countries has not diminished. OECD estimates show that in 1972 the flow of those resources

was, in dollar terms, much the same as it had been in 1971. And there are no signs that it is decreasing in 1973.

The extent to which the developing countries are dependent upon private funds from the industrialized world has been strikingly reflected in the rapidly increasing borrowing of those countries in the Euro-currency market. More than 40% of all publicly announced Euro-currency loans from private sources went to developing countries in 1972 compared with only 10% in 1970. Some estimates have placed the amount of that borrowing in 1972 at $7 to $8 thousand million or higher -- and all the indications are that it has continued to rise in 1973.

There are those who have welcomed this growing recourse to the private capital market by the developing countries as a desirable trend. It is said to represent a return to a traditional method of financing economic expansion, leaving the borrowing country free to make its own decisions on how the funds should be used.

I recognize that the Euro-currency market has played an important part in giving the developing countries access to the international capital market to an extent previously impossible since the end of World War II. I also recognize that it has permitted a transfer of resources to those countries that would not have been possible without it.

Nevertheless, I see very real risks for the developing countries in borrowing so heavily in a market with no established lending standards

and no overall surveillance to prevent unsound practices. I saw one banker quoted recently as saying that "a lot of banks are doing things internationally that they would not dream of doing domestically. I'm afraid that what has developed is a dual credit standard, one domestic and one international." Another banker has spoken of "the rapidly deteriorating situation in international credit standards."

There is also the fact that the Euro-currency market is, by its nature, delicately poised and very sensitive both to speculative monetary investments and to changes in the economic and financial policies of the capital-exporting countries. This poses a danger to the developing countries, as Mr. Johannes Witteveen, the new Managing Director of the International Monetary Fund, pointed out when he said the other day:

> "A reduction in the availability of funds in this market would complicate the management of external indebtedness for those countries which had allowed themselves to become overly dependent on this source of finance."

Another basic uncertainty inherent in Euro-currency funds stems from floating interest rates on which those funds are generally made available to the developing countries. These constitute too volatile a base on which to finance long-term industrial and infrastructure projects.

There is another feature of these Euro-currency loans which should not be overlooked. Foreign private investment is important to the developing countries not only because it contributes capital for their

development but because it brings with it technology, management, training and access to foreign markets -- items which are all in short supply in the Third World. Euro-currency loans bring with them none of these. Indeed, they are often made even without any appraisal of the soundness of the projects they are intended to finance.

Speaking to the U.N. General Assembly the other day Sir Alec Douglas-Home said: "The key word for the future of economic development is partnership." But there is no partnership between lenders and borrowers in the Euro-currency market -- not only because lenders and borrowers are inevitably remote from each other, but also because the lenders have no direct involvement in the enterprise in which their funds are ultimately invested.

I believe a greater effort needs to be made to supplement Euro-currency funds for the developing countries with other, long-term funds. That brings me to private foreign investment.

In the past relations between foreign investors and host countries have often been as remote as those between lenders and borrowers in the Euro-currency market. In some cases they still are, with no element of partnership in them. In my view that kind of situation is out of date. The future of foreign private investment must be based on a close and effective partnership between foreign investors and local interests.

There are some investors in the industrialized countries who find such a prospect obnoxious. Perhaps they are unwilling to share their

profits. Or they may assert that local partnership is unworkable, impracticable, even dangerous, in face of the nationalism -- specifically the economic nationalism -- that is characteristic of so much of the Third World.

Certainly economic nationalism is widespread throughout the world. But if we are realistic we must recognize that it is a fact of life, that it is here to stay and that it is a natural consequence of the past behaviour of nations and of foreign investors. And, let's not forget, although economic nationalism may seem to assume its most extreme forms in some of the developing countries, it also flourishes in many of the industrialized countries.

There is no doubt that economic nationalism has changed, and will continue to change, traditional concepts and forms of foreign private investment. But it will never eliminate foreign private investment. On the one hand, as I have already said, the developing countries need the capital, the technology and the various kinds of expertise that are available only from the industrialized countries. On the other hand, the industrialized countries need raw materials, markets and -- in some cases -- production on more competitive terms. In short, if both of them would only recognize it, there is clearly a community of interest between developing countries and foreign investors on which they can build to their mutual advantage and benefit.

What is most needed is mutual confidence between investors and

host countries. And confidence, in turn, must be based on understanding. How can such understanding be established?

Here, I suggest, we need to shift some mental gears.

Much of the distrust and suspicion of foreign investment felt by many of the developing countries has resulted from a lack of imagination and sensitivity in the attitudes and practices of, not all but too many, large corporations in their overseas investments. In today's world in particular, foreign investors need to be sensitive to the trends of the times, and to the implications of those trends, and to adjust to them.

They might begin by recognizing that economic nationalism is a reflection both of growing economic sophistication in the developing countries, and of the extent to which the governments of those countries are concerned with economic planning and development. In the countries of the Third World the setting of economic priorities and development goals is not merely a matter of maximizing growth; it is inseparable from social needs. The governments of those countries have their own developmental objectives and they generally know how they want to achieve them. They also know how to negotiate with foreign investors, and, if you will, how to play off competing investors of the same or different nationalities.

This means that investors from the developed countries must recognize that it is not for them to decide whether and in what form the developing countries should avail themselves of the opportunities offered

by private investment. They must understand that foreign private investment must be integrated into the development plans and priorities of the host country. No developing country will allow its development priorities to be set by others, or assume the risk that its development plans will be altered by a foreign corporation behaving like a rogue elephant.

For their part the developing countries must understand that private investors, however sensitive they may be to the modern world, need to look for a profit. Therefore foreign investors will only go to those countries where they will not be discriminated against because they are foreign, where they can invest on reasonable terms and where they will be assured of fair treatment in the years ahead.

If a broad understanding along these lines is achieved between foreign investors and host countries, a solid foundation for partnership between them will have been laid.

What type of partnership can be built on that foundation? Here I agree with Sir Alec, who said in the speech to which I have already referred: "Investors should involve the nationals of the recipient state to the maximum and strive for maximum participation of local capital." In my view this is one of the principal keys -- if not the most important key -- to successful foreign investment in the developing world.

There are many forms that partnership can take. One can be a production-sharing agreement by which the investment is recovered in the

form of products. Another can be through an arrangement between an enterprise in a developed country and an enterprise in a developing country, by which the foreign enterprise licenses a production process and provides technical assistance to operate it in return for fees and other royalties without any participation in equity or management. These forms of cooperation have some advantages, but to my mind do not go far enough in involving the foreign investor in the enterprise concerned.

Another form of partnership is a joint venture between foreign and local investors. The local partners may be in a minority or, as some developing countries are now insisting, in a majority. In either case, the enterprise looks and is much more local than a wholly-owned foreign subsidiary, yet at the same time the foreign investor has a very real stake in the enterprise.

Still another type of local partnership is represented by a foreign investment made in accordance with a fade-out formula by which, after a term of years, the foreign partner withdraws and local interests take over. This pattern of investment has been adopted by the Andean Group countries in Latin America.

For the host country in particular this approach has certain attractions. But it also has some obvious shortcomings. A fade-out formula may attract short-term investors looking for a quick pay-out rather than investors who will provide the continuing flow of capital, technology and expertise that is essential to the long-term success of

any business venture. Furthermore, any fade-out formula that leads to a forced sale is little different from expropriation without fair compensation.

The needs, the capacities, the objectives and the points of view of the developing countries of course differ widely. No single pattern for foreign investment will fit them all. But whatever form a partnership with local interests may take it is essential that it be not a token partnership undertaken for appearance or to gain entry to a country, but that it be a genuine partnership. The local partners must not be just a front, or included merely to enable them to obtain a share in the profits of the enterprise. They should be represented in the management of the enterprise as well as in its ownership, and their compatriots should be given every opportunity -- through training programs when necessary -- to take as much responsibility as possible in the operation of the enterprise.

There are those who argue against local partnership of any sort. They assert that available capital in the developing countries is often in governmental rather than private hands; that a multinational company can be handicapped by having separate sets of shareholders whose interests are focussed on a particular operation in a single country; that a company's reputation and the quality of its products are endangered if control is in any way diluted, and that mixed ownership means mixed objectives and conflicting loyalties.

There may be some substance to each of these arguments. But they all ignore one overriding fact: namely, that the days of absolute foreign ownership and control are past.

All this is not to say that foreign corporations and foreign investors should act as charitable institutions towards the developing countries. Not at all. In the future as in the past, investment decisions must be made on hard-headed business grounds. On no account should any investor be expected to invest on any other basis.

Today, however, we have not only the hard-headed foreign investor but also the hard-headed host country. And despite all efforts to achieve mutual understanding and agreement, difficulties can still arise to prevent the creation of a fruitful partnership between them.

There has been much discussion about a satisfactory form of lubricant for potentially abrasive situations. Some have suggested that overseas investment be undertaken by a supra-national company or companies. Others have proposed that foreign investment be carried out under varying degrees of international control or supervision.

These are interesting ideas, but they are unlikely to come to much in the foreseeable future. Of greater merit is the approach taken by the International Chamber of Commerce and the Pacific Basin Economic Council, composed of Australian, Canadian, New Zealand, Japanese and U.S. firms. Both the Chamber and the Council have worked out -- independently of one

another -- not a code of conduct or of laws to be imposed upon investors and host countries, but guidelines for international investment that are intended to provide the basis for a dialogue between foreign investors and host countries.

This dialogue is now being carried on. In time it should lead to changed attitudes, increased understanding and greater confidence on both sides. Meanwhile, there are several ways ready at hand by which the risk of conflict between foreign investors and host countries may be reduced.

One way is to transform what would otherwise be a bilateral project into a multilateral project. This is not always possible, particularly in industrial ventures. But in some cases, especially in mining, it is possible.

Let me give you an example. A large U.S. corporation plans a mining project in a Latin American country. To avoid too great local exposure it wishes to associate British, French, German and Japanese partners in the investment. Such an arrangement makes both the originating foreign investor and the host country feel more comfortable.

Another means of reducing possible friction is to include as an investor in a project an international organization like the International Finance Corporation.

IFC is a self-contained affiliate of the World Bank -- created for the specific purpose of promoting private enterprise in the developing countries. It does this by investing in company with local and foreign

investors -- always as a minority partner and taking no part in management. So far we have put $ 848 million of our own money into 203 projects with a total cost of $4 thousand million in 51 developing countries. You might be interested to know that, excluding petroleum investments and suppliers' credits, IFC and its associated investors in 1972 contributed on the order of 12% of the total flow of direct private foreign investment to the developing countries.

Since I have been talking about partnerships, let me point out that the promotion of more widely shared investment and ownership is one of IFC's basic objectives. We will invest in no enterprise unless there is immediate or early provision for some degree of local ownership.

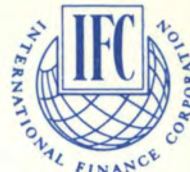
But IFC represents more than just money. It is itself a partnership owned jointly by 98 developed and developing countries. As such it is able to act as a balancing factor between the interests of foreign investors and host countries. Time and again IFC's presence in a project has made possible the removal of difficulties and misunderstandings, and has helped establish that mutual confidence which is the only basis for a satisfactory and lasting relationship between foreign investors and developing countries.

In the 17 years of our existence we have been glad to have some 30 European enterprises as co-investors with us. In addition 67 European banks and financial institutions have been co-investors or participants in IFC's own investments. And in our last fiscal year investors in the member countries of the European community committed to IFC-assisted

projects twice the amount of funds committed to those projects by investors from the United States.

We find this very encouraging. Europe, which today accounts for over 40% of world trade, is a significant source of private investment funds for the developing countries. Europe can play an important role in creating new forms of mutually beneficial relationships between foreign investors and the Third World, and we in IFC are eager to support any initiatives to that end.

Let me end on a note of caution. There is no way in which a foreign investor can fully protect himself from future difficulties when he invests in a developing country. Any investment in a volatile investment climate carries with it a high degree of risk. But once an investment decision has been taken, the prudent investor will give careful thought to how he can best achieve his investment objectives. And in my view, a meaningful partnership with local interests -- if entered into and carried out in the proper spirit -- offers the best hope of achieving long-term security for the foreign investor.



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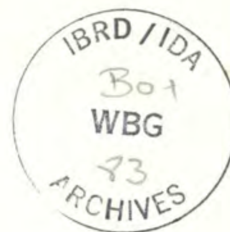

Speech by

William S. Gaud

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International Finance Corporation

Beirut, Lebanon

January 1972

It is always a pleasure to return to Lebanon. This is so for many reasons, but let me single out just one: to see for oneself the impressive economic progress that Lebanon continues to make.

That progress is especially notable for the part played in it by the private sector, and for the increases in industrial production and industrial exports that have resulted. Lebanon is indeed a prime example of the contribution private enterprise can make to economic development.

There are some who think that development and private enterprise don't mix. I don't agree. Risk capital -- that is, private capital -- has historically been the major financial base for economic growth. It still is.

Private enterprise is important to the developing countries for several reasons. For one thing, the challenge posed by development is so vast that there are not enough public and international aid funds to meet it. That means that every available dollar, pound and franc has to be harnessed to the development effort. Thus private enterprise is important because of its money contribution to development. But, equally important, it also contributes technology and efficient management, both of which are in short supply in the developing countries.

The International Finance Corporation (IFC) was set up in 1956 specifically to promote the growth of productive private enterprise in the developing countries. The World Bank had already done much to help the less developed countries build the foundations to support industrial growth. But the Bank itself is not suited to give direct support to private enterprise. It is a lending institution, not an investment institution. It cannot supply risk capital or invest in equities. It lends only to governments or on a government guarantee.

After 10 years the member countries of the World Bank realized that effective support for private enterprise required the creation of a special institution, and so IFC was born.

Let me now say something about what IFC is and what it does.

First, then, what is IFC? A basic point is that IFC is quite different from a multinational corporation. It is owned by the 96 member countries which are its shareholders, Lebanon among them. This means that these countries are, as it were, part owners of every investment made by IFC. Seventy-three of our 96 member states are less developed countries -- evidence that they feel private enterprise has a place in their future.

What resources does IFC have to accomplish its objectives? Our 96 member countries have subscribed and paid in our capital of $107 million. We have accumulated earnings of $65 million. We can also borrow from the World Bank up to four times the amount of our unimpaired capital and surplus -- in other words, we can borrow $428 million. So, in all, our resources amount to $600 million.

How do we use these resources? In various ways, and with considerable flexibility. IFC investments usually range between $1 million and $20 million. They are always tailored to the case in hand. Most consist of a share subscription plus a long-term loan. Sometimes when a loan is not needed we subscribe for

shares only. Another form of investment is a long-term loan with an equity feature. Less often, when equity but not loan funds are available from elsewhere, we will make a straight loan.

IFC loans normally run for a period of seven to twelve years, with amortization payable semi-annually after the expiration of a grace period to cover the construction of a project. Interest rates depend upon the conditions of each transaction and the state of the world's long-term money markets.

How have we put our money to work? We have, in all, invested $617.9 million in 176 businesses in 47 developing countries. Through and with us others have invested $2,767 million in these enterprises, making a total of $3,385 million.

Our money has gone primarily into manufacturing -- but also into tourism, utilities, mining, food processing, petrochemicals and agribusiness.

Here in Lebanon we have so far made two investments, in projects which will cost $4.6 million in all. Both investments were made in 1971.

The first was a $930,000 loan to help modernize your textile industry. It was made to Filitex to support financing of a new cotton spinning mill. Its products are expected to eliminate the need to import knitting yarns.

Our second investment in Lebanon was also a loan, of $1.2 million, to help finance the modernization and expansion of Lebanese Ceramic Industries Company. This project will improve production processes in the manufacture of wall tiles and double output capacity. When the expanded plant reaches full production in two years' time the additional output will either substitute for imports or be exported.

How do we become involved in our investments? In various ways. In some cases, IFC is asked to put up the "last money" for a project by filling a gap after most of the financing has already been arranged. Or an industrialist may

have a project in a less developed country and ask us to assess it and, if we approve it, to put a financial package together. In such cases, by making a commitment at an early stage, IFC may make it possible to bring in other investors to complete the financing.

Sometimes, as in the case of three recent projects in Indonesia, we may ourselves identify a promising project and seek the help of others in developing it. Or we may help in promoting a pilot company to make feasibility studies and experiments. At the moment we are doing this with a vegetable-growing project in West Africa, and in Mexico with a project designed to produce newsprint from bagasse.

How does a project qualify for consideration by IFC? It must meet two basic conditions. It must be of economic benefit to the country concerned, and it must be potentially profitable.

Profitability is essential for two reasons. One reason is that without profitability we can not attract the business and financial partners who, as I have said, have invested $2,767 million in the projects we have supported in developing countries. The other reason is that without profitability IFC could not turn over its capital by selling parts, or the whole, of its investments, thereby releasing its funds for new ventures. To date we have sold $166.7 million of our investments to other investors, local and foreign.

A moment's reflection will show that there need be no conflict between the objectives of economic benefit and profitability. Indeed, they are interdependent. Any number of private business enterprises in the developing countries contribute to rising incomes, or to a greater export capability, or to greater industrial efficiency, or to the effective use of local resources, or to the transfer of needed technology, or to the training of a needed labor force or to some other developmental objective. Those enterprises could do none of these things if they did not make a profit. They could not even survive.

We take great care to ensure that each of our investments should fulfill the two conditions I have mentioned. Over the years our international staff has built up a considerable body of expert knowledge -- financial, legal and technical -- which we apply in an on-the-spot appraisal of every potential investment. In this way we try to assure that the project is sensibly structured and its concept and sponsorship sound; that management is capable and experienced; that the plan for financing the venture is realistic; that a market exists for the company's products or services, and that it will benefit the economy of the country in which it is located.

However IFC becomes involved in a project, we never invest alone. We always have partners. Our commitment to any project is normally well under 50 per cent of the project cost, and we provide less than 25 per cent of any share capital. We do not participate in management, nor are we represented on the boards of the enterprises in which we invest. But we do maintain a continuing interest in those enterprises, through our Portfolio Supervision Unit and by field visits and periodic consultation with management.

There are two other points I should mention. First, we don't compete with existing capital resources -- it is our job to mobilize and supplement private capital, not to replace it. Second, we will invest only in projects which are not objected to by the government of the country concerned.

I said a moment ago that IFC always has partners in its investments. Let me expand that statement by adding that it is our policy to encourage local ownership of the ventures in which we participate. We will not support an enterprise that is 100 per cent foreign-owned. We will, on the other hand, support one that is 100 per cent locally-owned. In no case will we invest in an enterprise unless there is some local ownership.

Half the enterprises in which we have so far invested have been joint ventures supported by local and foreign capital. In a joint venture the skills and resources of the partners complement each other. The local partner provides not only capital, but knowledge of local market conditions; he can handle relations with labor and government and help arrange local currency financing. The foreign partner, besides capital, contributes industrial techniques and managerial experience.

Many people have the impression that even in joint ventures the bulk of the funds invested come from foreign sources. The record does not support that impression.

Over the whole range of IFC's investments local capital has made a greater contribution than has foreign capital. Of every dollar invested in projects directly financed by IFC over its 15 years' of life, 19 cents were contributed by the Corporation, 36 cents by foreign private investors and 45 cents -- nearly half -- by local interests.

Besides direct investment IFC has done a number of other things to help channel domestic savings into productive private enterprise. Let me mention a few.

Sometimes local investors are willing to subscribe to shares in a local enterprise, but are only able to pay for them over a lengthy period. In such cases we have given local standby and underwriting commitments to enable financing of an enterprise to go forward without delay. Since 1962 we have committed $52.8 million in these ways.

In those countries with fairly well developed capital markets, IFC has sometimes required, as a condition of financing a project, that its sponsors offer shares to local investors if there is no existing domestic public participation. Sometimes, too, we have earmarked part of our own holding of shares for future

sale to local investors, particularly where lack of a capital market has made public participation in the early stages of an enterprise difficult or impossible.

IFC is also active in helping developing countries to establish or strengthen institutions to mobilize local capital for investment. We provide that help mainly in two ways.

First, governments and private groups in the developing countries can, at their request, be helped to establish and support institutions to channel domestic savings into productive private enterprise.

Second, in countries where securities are already traded locally, IFC can advise on ways to encourage wider share ownership and to increase the choice of stock holdings available to local investors.

Our object is to propose practical ways to bring about an increase in the flow of savings into productive domestic investments. That would result in a broadening of participation by local investors in the ownership of profitable enterprises, and so reduce dependence on foreign capital.

Now, an important question. Why does anyone in a developing country turn to IFC for help in studying, putting together or financing a private enterprise in such a country?

For various reasons. Here are some of them.

First, our money. Several features of IFC funds are particularly attractive to both local and foreign investors. We do not require a government guarantee. IFC can make long-term money available when it can't be found elsewhere. We can provide equity funds. Also, our money is untied. The only requirement is that it be spent in one of the 117 countries belonging to the World Bank Group or in Switzerland. It can be used to buy equipment, to cover foreign exchange or local costs, for working capital or for any other legitimate business purpose.

Next, our staff. I said earlier that our financial, legal and technical experts make a careful study of every potential investment. The Columbia Journal of World Business has called our staff "one of the most competent in the business". Among our engineers alone the average of industrial experience in developed and developing countries is 24 years. All that expertise does not cost sponsors of our projects a penny.

Another thing. The developing nations see IFC as a means of combining the benefits of foreign investment and expertise with encouragement of local ownership of local industry. They also see an IFC investment as a means of avoiding too great a dependence on any one country or any one multinational corporation. If a large international corporation is an investor in an IFC project, local investors look upon IFC as a partner who can deal with such a corporation on equal terms, whereas they themselves may not be able to do so.

That is because IFC as an international institution has certain advantages possessed by no national or purely private institution. Standing midway between the developed and the developing nations, it owes its existence and its loyalty to them both. It represents no special interests, it has no political objectives. In short, IFC fills the role of an honest broker -- doing its best to give impartial service to all who seek its help.

We are always willing to consider investing in something new. In view of the rapid growth of your industrial sector, and the part private enterprise has played in it, I am sure there must be many prospects in Lebanon. Whatever they may be our doors are always open to you, and our help is always available.

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